

FINANCIAL TIMES

Europe's Business Newspaper

WEEKEND JULY 31/AUGUST 1 1993

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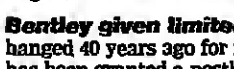
Envoys achieve
breakthrough in
Bosnia talks

International mediators yesterday achieved a breakthrough when Bosnia's president Alija Izetbegovic caved in to pressure and approved the division of Bosnia into three republics as part of a settlement to end the sixteen-month war.

The agreement between Mr Izetbegovic and his Serb and Croat adversaries appeared to favour a Serb and Croat plan to form their own ethnic mini-states. Page 24

Littlechild urges reforms: The UK electricity industry regulator, Professor Stephen Littlechild, is to decide this year on whether to refer the UK's two main generators to the Monopolies and Mergers Commission, casting doubt on ministers' plans to raise £5.5bn from privatisation sales in 1994-95. He called for wide reform in the power trading market. Page 24; Lex, Page 24; Page 7

Major to give evidence to arms inquiry: John Major, the UK prime minister, is to give evidence in public to the inquiry into arms exports to Iraq on January 17 next year. Sir Richard Scott, (left) the Appeal Court judge presiding over the inquiry, named current and former ministers he wants to give evidence before Christmas. Page 6



Bentley given limited pardon: Derek Bentley, hanged 40 years ago for murdering a policeman, has been granted a posthumous pardon limited to sentence. UK home secretary Michael Howard said he believed a free pardon remained inappropriate. Bentley's accomplice, who fired the shots that killed the policeman, was too young to be executed.

US budget to face final vote: US President Bill Clinton's budget will face a final vote in Congress next week after negotiations from the House of Representatives and the Senate wrapped up a compromise bill. Page 4; Man in the News, Page 8

Israel ignores truce offer: Israel ignored a truce offer from pro-Israeli Hezbollah guerrillas and vowed to keep up its aerial and artillery bombardment of villages in southern Lebanon. Meanwhile the US continued its efforts to arrange a ceasefire after six days of bombing. Page 4; A blow for compromise and conciliation, Page 9

Barclays to amend forms: Barclays, Britain's biggest bank, is to amend its customer application forms after banks were told they must allow a choice of whether personal account details can be used by their sales subsidiaries to market products. Page 5

UN orders Somalia torture inquiry: The United Nations ordered an immediate inquiry into charges by Africa Rights, a London-based rights organisation, that UN troops in Somalia killed and tortured civilians. Page 4

The Body Shop wins damages: The Body Shop, the toiletries and cosmetics group, was awarded £274,000 High Court libel damages over a programme in the Channel Four Dispatches series which questioned its commitment to animal welfare. The company's founders Gordon Roddick, chairman, and Anita Roddick, managing director, were awarded £1,000 each. Channel 4 and programme makers Fulcrum Productions denied libel.

Microsoft shares fall sharply: Shares of Microsoft, the world's largest computer software company, dropped sharply as analysts cut their estimates for fiscal 1994 earnings. Page 12; World stocks, Page 21

Chemicals company fined: West Yorkshire chemicals company Hickson and Welch was fined £250,000 and ordered to pay £150,000 costs after a fire at its plant killed five workers.

LDP picks leader: Japan's Liberal Democratic party has chosen a relatively young, self-proclaimed reformer, Yoshiro Kono, as its president. Page 4

Bridgestone, the Japanese tyre maker which owns Firestone of the US, dashed hopes of growth this year, cutting ¥9bn (\$85m) from its forecast for worldwide net profits and saying it expected sales to fall ¥100bn short of original expectations. Page 12

STOCK MARKET INDICES	
FT-SE 100	2285.5 (+8.9)
Yield	4.32
FT-SE Eurotrack 100	1253.81 (+11.49)
FT-A All-Share	1448.76 (+0.59%)
Nikkei	20,380.14 (-76.71)
New York: Dow Jones	5938.96 (-30.46)
S&P Composite	447.30 (-2.94)
US LUNGE RATE	
Federal Funds	3.00%
3-mo T-bill	3.00%
Long Bond	107.5
Yield	6.57%
LONDON MONEY	
3-mo interbank	5.75%
Libor long gill	5.75%
Libor long gill	5.75%
NORTH SEA OIL (August)	
Brent 15-day (Sep)	\$16.76 (17.0)
WTI	\$16.22 (16.3)
New York Crude (Aug)	\$407.0 (357.8)
London	\$405.75 (354.1)
Tokyo close	¥105.8

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Future of ERM in balance

Intervention fails to
prevent heavy sales
of weak currencies

By Peter Marsh and James Blitz
in London, Lionel Barber
in Brussels and John Riddling
in Paris

THE BATTLE of wills between currency investors and European governments was unresolved last night after unprecedented intervention by central banks failed to prevent heavy selling of weak currencies.

After the Bundesbank and other European central banks spent an estimated DM50bn to DM70bn (£19bn-£27bn) buying the French and Belgian francs and Danish kroner, all three currencies ended European trading on or close to their floors in the exchange rate mechanism. By comparison, an estimated £15bn was spent to support sterling last September 16, the day it was forced out of the ERM.

International investors including pension funds, big companies and hedge-fund speculators stepped up their selling of weak ERM currencies, believing that the strains would soon force either a broad ERM realignment or a suspension of the rules keeping the system in place.

The second day in succession of hectic currency trading also forced a weakening in the Spanish peseta and Portuguese escudo, two of the ERM's ailing currencies.

It largely obscured an effort by French government officials to persuade the Bundesbank to make a more substantial cut in interest rates after its largely technical move on Thursday.

The French authorities are

THE ERM CRISIS

Pages 2 and 3

- Nightmare facing French policy makers
- Franc fort on the brink of surrender
- Frankfurt dives for cover
- Fund managers rush to limit their exposure
- Gold bursts \$400 level
- UK harks back to warning of 'fault lines'

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- Lex...Page 24

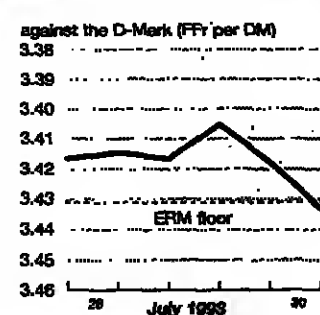
believed to be trying to force the Bonn government to choose between calling for a politically sensitive devaluation of the franc, or to exert discreet pressure on the Bundesbank to lower short-term rates. "It is a trial of strength," said one European monetary official.

In Germany, Mr Johann Wilhelm Gaddum, a Bundesbank council member, appeared to hold out the possibility of an escape route to the turmoil by saying the central bank would not stand in the way if money market interest rates threatened to fall below the central bank's 6.75 per cent discount rate.

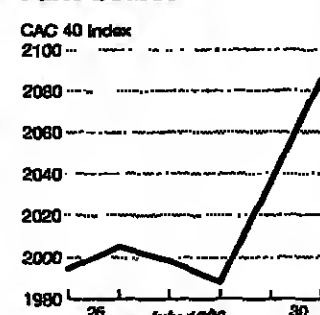
That was interpreted as a soft-

An ill wind for weak currencies blows fair for equities and gold

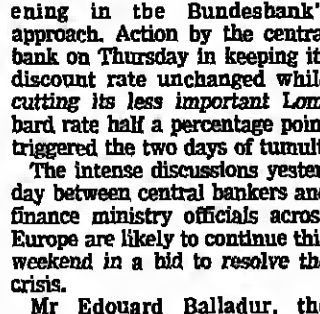
French franc



Belgian franc



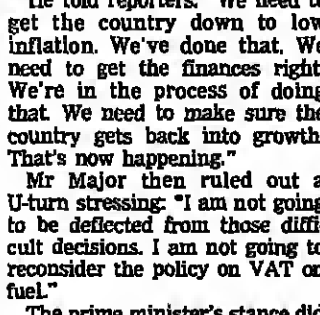
Danish krone



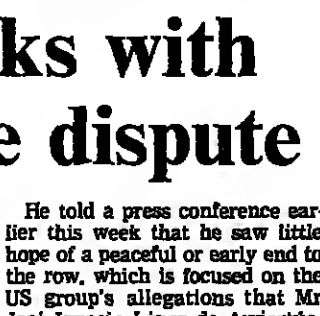
Paris bourse



FT-SE 100 index



Gold price



Continued on Page 24

Major stands firm on plans for fuel VAT

By Philip Stephens
and Alison Smith

MR JOHN MAJOR yesterday ruled out a retreat from the government's plans to impose value added tax on domestic fuel in the wake of the Conservative party's humiliating defeat in the Christchurch by-election.

As Mr Paddy Ashdown's Liberal Democrats celebrated their biggest post-war victory over the Conservatives, senior ministers acknowledged the controversial tax had played a large part in the loss of the once-safe Dorset seat. A Tory majority of 23,105 in last year's general election was turned into a 16,427-vote Liberal Democrat margin.

High Court rejects Maastricht challenge...Page 7
Handbagged by grey power...Page 8
Food for thought on VAT...Page 8

Mr Major's comments came as a victory for the government in the High Court against a legal challenge to ratification of the Maastricht treaty offered a glimmer of good news on an otherwise miserable day. Lord Roskill is considering whether to appeal but ministers are confident that the High Court judgment will be sustained.

In an attempt to forestall a

threatened Tory backbench revolt over tax policy, Mr Major insisted that he would not be deflected from tough measures to reduce public borrowing. He told reporters: "We need to get the country down to low inflation. We've done that. We need to get the finances right. We're in the process of doing that. We need to make sure the country gets back into growth. That's now happening."

Mr Major then ruled out a U-turn stressing: "I am not going to be deflected from those difficult decisions. I am not going to reconsider the policy on VAT on fuel."

The prime minister's stance did nothing to defuse opposition calls

for the tax to be scrapped or delayed, with some Tory MPs echoing demands that the second stage of implementation - due in 1995 - should be abandoned. Senior ministers acknowledged that Mr Kenneth Clarke, the chancellor, would have to offset higher fuel costs with generous compensation for those on low incomes and the elderly.

The by-election defeat has severely limited Mr Clarke's room for manoeuvre in the November Budget. Some ministers are arguing that any further tax increases must be restricted to reducing the tax allowances of those on high incomes.

With the massive defection of

Continued on Page 24

VW head seeks talks with
GM over espionage dispute

By Christopher Parkes
in Frankfurt

THE HEAD of Volkswagen has asked for talks with his counterpart at General Motors in an attempt to defuse the increasingly bitter row between the two automotive groups over charges of industrial espionage.

Mr Ferdinand Piech had contacted Mr Jack Smith, proposing a meeting to "discuss the matter between our concerns without influencing the legal conflict", VW claimed yesterday.

He had also been in touch with Mr Gunter Rexrodt, the German economics minister, to discuss his initiative, ministry officials said. Mr Piech's call to Bonn followed an offer from Mr Rexrodt to act as a mediator.

A ministry spokeswoman said Mr Rexrodt hoped the two sides would moderate their language, and allow legal procedures to take their natural course.

Mr Rexrodt warned both sides in a television broadcast on Thursday night to take care not to damage Germany's reputation, as too many jobs were at risk.

General Motors officials yesterday could not confirm that VW had made contact with Mr Smith, who is travelling during the group's two-week summer break. But they admitted they were surprised by the initiative so soon after Mr Piech had been reported as saying that he would not let anyone "pee on our leg".

VW spokesmen were also apparently unaware that Mr Piech had spoken to Mr Rexrodt. They were unable to confirm that the VW chairman would renew contacts with Mr Smith at the start of next week, as the group said in a press release yesterday. In an unexpected outbreak of diplomacy, Mr Piech appeared to be responding to mounting political pressure to break the spiral of charge and counter-charge.

He told a press conference earlier this week that he saw little hope of a peaceful or early end to the row, which is focused on the US group's allegations that Mr José Ignacio López de Arriortua, its former global purchasing director, and several associates, systematically plundered industrial secrets from GM and its European subsidiaries before defecting to VW in March.

Describing the conflict as a "war", Mr Piech also insinuated that GM, its German subsidiary Adam Opel or their agents could have conspired to pervert the course of justice by planting evidence implicating Mr López and his team. His suggestion of talks also followed confirmation from the US Justice Department in Washington that it had opened inquiries into the case on its own initiative because of interest within the department in industrial espionage in multinational companies.

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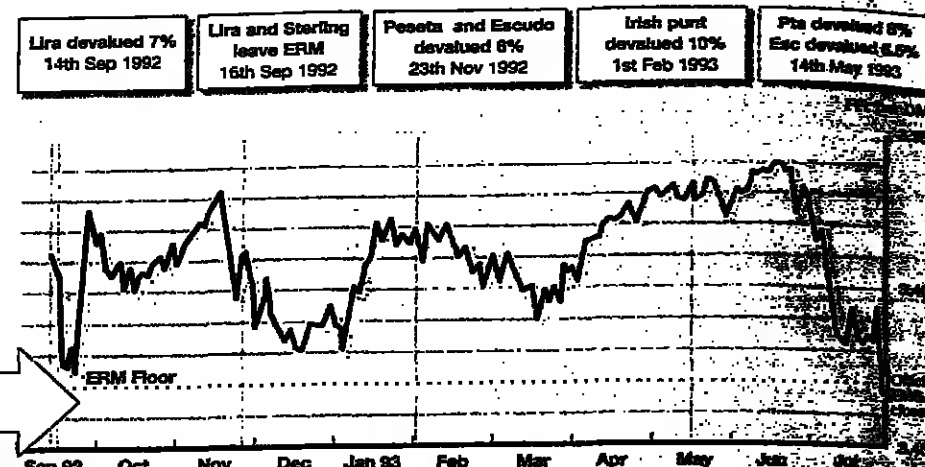
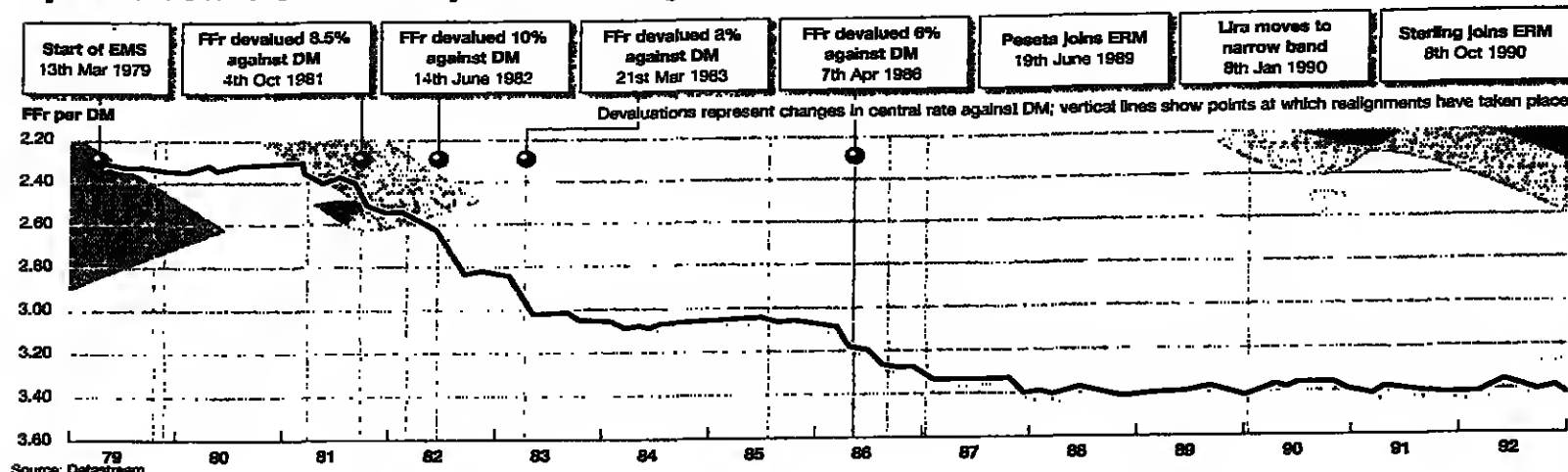
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NEWS: THE ERM CRISIS

■ Paris faces painful decisions ■ Balladur in crisis talks ■ Crux of economic policy in danger

Ups and downs of the European Monetary System



The nightmare facing French policy makers

Pursuing rational economics means political humiliation, writes Ian Davidson

THE problem with the struggle over the future of the European exchange rate mechanism is that the economics and the politics are out of kilter. From a purely economic point of view, France is obviously neglecting its real economic interests by clinging with such fierce determination to the virtually fixed exchange rate against the D-Mark. But from a political point of view, the ERM at its existing exchange rates has acquired all the symbolism of the commitment to closer European integration encapsulated in the Treaty of Maastricht.

This may not be rational, but it is a fact. If France were not compelled to follow the perverse constraints of the Bundesbank's tight monetary policy, it would be free to respond to low inflation and rising unemployment by sharply lowering

its interest rates. But the medium-term political trade-offs would look much more dubious. First, the reputation of the franc as a hard currency would once again be on the line; and the abandonment of the *franc fort* policy would require a wrenching domestic political reappraisal, since it has been followed with rare unanimity by both left and right in France for ten years.

More generally, abandonment of existing exchange rate policy would mean that the credibility of the exchange rate mechanism itself would start to be in question. Most serious of all, the prospects for economic and monetary union, already seriously battered by successive waves of speculative attack, would be further discredited.

When President François Mitterrand opted in 1993 for

what came to be called the *franc fort* policy, he was effectively discarding most of his election commitments to old-fashioned socialism in France. Instead, he was putting a higher priority on three other values: France's ability to compete in international markets in the outside world, France's reputation as a fiscally responsible country, and France's commitments to the European Community.

To begin with, the government's new objectives were quite modest: to put an end to soaring trade and budget deficits, and stop the repeated devaluations. But as the new policy started to work, it became the centrepiece of France's progressive conversion to market economics, both in the official establishment and among the electorate.

In addition it also became

the starting point for all subsequent official thinking in France about the future development of the European Community. Without the *franc fort* conversion in 1983, it is unlikely that France could have accepted the 1985 programme for a Single European Market; and without the accumulated success of the *franc fort* policy, it is inconceivable that France could have gone along with, let alone proposed, the plan for economic and monetary union eventually incorporated in the Maastricht treaty.

But the political corollary of the success of the *franc fort* policy was even more profound, because it vastly increased the confidence of French politicians, including President François Mitterrand, in their attitudes to the relationship with Germany. Previous French leaders, starting

with President Charles de Gaulle, had always known that France was economically much weaker than Germany; but they attempted to dominate Germany politically, by virtue of the wartime inheritance, France's possession of nuclear weapons and a seat on the Security Council, and Germany's division and diminished sovereignty.

But after the *franc fort* policy began to produce consistent benefits in the late 1980s, with steadily falling inflation, the French started to think that they might even be able to compete with Germany on terms of economic equality as well. This new economic self-confidence goes a long way to explain the extraordinary partnership between President Mitterrand and Chancellor Helmut Kohl.

First, it meant that both of them could believe that their

own countries would benefit from ever-more ambitious plans for the integration of a federal Europe. Moreover, when the Germans were reunited and recovered their political sovereignty, it meant that President Mitterrand was able to overcome his initial reflex of revulsion, and instead press for a further acceleration of the Community's integration plans. And in the end, he claimed that monetary union in Europe would make the Community the world's number one monetary power.

But the converse is that the franc exchange rate has become a virility symbol of French economic strength. If it were to be blown out of the ERM, that would be a major humiliation on political grounds of self-respect.

The problem today is that this logical construction, built up from the foundations of the

franc fort, is now turning into a nightmare for French policy makers. In a logical world, it might make sense to argue for a temporary suspension of the ERM, until Germany has digested the costs of unification; it might make sense to re-think the timing and the criteria of the programme for economic and monetary union.

The difficulty is that the recent perverse effects of the *franc fort* policy, notably the aggravation of the recession and the increase in unemployment, have seriously undermined French popular support for Maastricht, leading last March to a catastrophic defeat for the Socialist government. It might be constructive to renegotiate a more plausible programme for Emu; but by now there may no longer be enough popular support in France for such an objective, to enable it to be ratified.

Fears in Spain

Madrid 'needs anchor of EMS'

By Tom Burns in Madrid

MR Pedro Solbes, Spain's economy and finance minister yesterday called for weekend inter-governmental talks to stem further currency speculation.

"We cannot start off on Monday in the same way that we finished off on Friday," Mr Solbes said. He said the talks should be sponsored by France and Germany.

Mr Solbes was speaking after a cabinet meeting which had reviewed cuts in unemployment benefits to reduce Spain's expanding budget deficit. The discussions took place as Spain began facing up to possible withdrawal of the peseta from the ERM.

Domestic policy makers, business leaders and economists are uncertain about what life might be like outside the security of the ERM. There are fears that Spain, after four years of EMS membership, still requires the discipline imposed by the system.

"Within the EMS we have an anchor that propels us towards convergence (with the system's stronger economies) and protects us from the financial discipline that would otherwise exist," said Mr Oscar Fajó, chairman of the state energy group, Repsol.

However, some economists argue that Spain has already cut loose from the disciplinary anchor. The public deficit is running at around 6 per cent of GDP, double what it ought to be under convergence targets, and inflation has stuck at an unacceptably high 4 to 6 per cent.

Carlos Espinosa de los Monteros, chairman of the *Círculo de Empresarios*, a Madrid-based business think-tank, argued it did not make much difference whether Spain remained in the ERM or not. "Everything would be the same if we had been disciplined but we haven't. We have the disadvantages of ERM constraints and not the advantages of fiscal policy."

The economy desperately needs lower interest rates with GDP set to fall by perhaps 0.5 per cent in 1993 and first half statistics showing unemployment at 22.25 per cent.

But Mr Gwynn Hatch, a senior economist at James Capel in London, argued that the Bank of Spain could only reduce rates cautiously.

"The differences between Spain and the UK last autumn and with France now is that Spain has not got inflation licked."

Markets unleash fierce assault on French currency

Franc fort on brink of surrender

By John Riddling and Alice Hawthorn in Paris

WHEN Mr Edouard Balladur, France's unflappable prime minister, emerged late on Thursday night from crisis talks with his economic and monetary officials to decide how to defend the franc, he said it had been "just a normal day".

But even by Mr Balladur's sanguine standards, the events of yesterday were abnormal. The markets unleashed a fierce assault on the franc, following Thursday's unexpected decision by Germany's Bundesbank to leave its discount rate unchanged. The franc fell to its ERM floor rate of FFfr4.305 to the D-Mark despite concerted intervention by the French and German central banks.

Economists argued yesterday that the current franc/D-Mark parity was probably unsustainable and that the French government's *franc fort* policy was on the brink of defeat.

The government now faces a series of painful decisions. The first is whether to try to tough it out. The *franc fort* is the centrepiece of French economic policy, and the current franc/D-Mark rate is unlikely to be surrendered without a fight.

Economists argue that this would involve continued heavy intervention by the Bank of France, if necessary with a rise in French official short term interest rates above their current 10 per cent level. The French central bank has an estimated FFfr123bn of net reserves to deploy and it would also expect to receive support from the Bundesbank. One diplomat said yesterday the French strategy might have been to let the franc fall to its ERM floor rate so as to force the German authorities to intervene on the franc's behalf.

A strategy of intervention and high French interest rates was used successfully to defend the currency in previous attacks in September last year and January this year. But the current situation is more complex. France is in recession. INSEE, the state statistics institute, forecasts a 0.7 per cent fall in gross domestic product this year. Meanwhile industry is pleading for lower interest rates.

Observers argue that these constraints mean that realignment of the French currency within the ERM is becoming increasingly difficult to avoid. "If the franc has to devalue, then Mr Balladur's first instinct will be to devalue

Where does the ERM go now?



OPTION 1

■ **Sweet it out:** the Bundesbank and the Bank of France could defy the sceptics and decide to hold on to existing exchange rate parities, come what may. This would mean open-ended and costly intervention by Europe's central banks, which several ERM members might be unwilling to counterbalance. Spain and Portugal, for example, might decide to withdraw sooner rather than later, joining the UK and Italy in floating outside the mechanism.

OPTION 2

■ **Realign:** members could opt for a wholesale realignment of exchange-rate parities, but leave the ground rules unchanged. This would involve an upward revaluation of the strongest currencies, the D-Mark and the Dutch guilder and possibly the Irish punt. The French franc would be devalued against these strong currencies, but given a higher value against the weaker ones. In the past, France in particular has resisted this.

OPTION 3

■ **Re-vamps:** a "new and improved" ERM, including not only a realignment, but additional safeguards to make the system more durable. These could include: letting currencies fluctuate more against their central rate; a willingness to tolerate smaller, more frequent realignments; measures to discourage currency speculation, such as a tax on foreign currency transactions or the introduction of limited capital controls.

OPTION 4

■ **Call it a day:** Germany, France and the other member countries could abandon the ERM, possibly by suspending their central banks' obligation to keep currencies within the grid. This would leave all currencies floating against each other and the dollar and yen. One possibility would be for the ERM members, minus Germany, to form a semi-fixed exchange rate system. The D-Mark could join later, when German inflationary pressures had subsided.

within the ERM," says one Paris-based diplomat. This would allow the ERM to remain intact, but would require German assent to a revaluation of the D-Mark.

That solution was left open by a statement yesterday morning from the Bank of France. The central bank said that it excluded leaving the ERM or floating the franc. But it said nothing about a possible realignment of ERM currencies.

If devaluation cannot be avoided, then realignment within the ERM, rather than departure from the system, would probably be the least damaging outcome for the Balladur government. The French prime minister has chosen his words carefully on the subject of the ERM and the

franc. "I am fully committed to the stability of the franc within the ERM," he said in a newspaper interview earlier this month. "I exclude today or tomorrow any other policy."

Political analysts in Paris argue that such a policy could be consistent with a realignment. "He has never said as baldly as the former prime minister that he would quit before devaluing," said one diplomatic source. However, others claimed that Mr Balladur is seen by the French electorate as being so strongly committed to the current parity that any change would be interpreted as defeat. A devaluation of the franc would find a warmer welcome from many industrialists. The franc's strength since September has posed serious

problems for French companies by making their exports less competitive in countries with weaker currencies, notably the UK, Spain and Italy.

The latest external trade figures, published yesterday by the Customs Office, illustrated the extent of the damage. The value of French exports fell to FFfr91bn (£10.36bn) in April, a reduction of 19 per cent on the same month last year. The general economy has been sheltered from the full effects of lower exports by a sharper reduction in imports (the trade surplus rose to a record FFfr7.65bn in April), but industry has suffered.

"We would gain a lot from a *franc faible* (a weak franc), because we export much more than we import," said Mr

Philippe Messager, corporate finance director of Valeo, the motor components group which derives most of its sales from overseas markets. The strong franc has also diminished the profit contribution from the foreign subsidiaries of French companies.

For some companies, however, such as Rhône-Poulenc, the chemicals group, the *franc fort* policy has encouraged industry to become more competitive. "We don't need a different exchange rate," Mr Jean-Pierre Throudet, finance director, commented recently.

But last night, as the fate of the franc hung in the balance, France appeared to be in danger of a different exchange rate whether it needs it or not.

Although sentiment remains weak, according to INSEE, there are signs that confidence has reached its nadir. Industrial output has continued to fall, apart from in consumer goods.

The only other positive sign was the publication of provisional figures by the Customs Office showing that France's external trade surplus rose to a record FFfr7.65bn in April, from the previous record of FFfr7.44bn in March.

However, the chief cause of this healthy surplus was the continuing fall in imports, reflecting the weak domestic demand. The value of imports fell to FFfr83bn in April, a reduction of 3.3 per cent on March and of 19 per cent on April 1992.

Exports also continued to fall, albeit at a slower pace than in previous months.

A view from France

The case for maintaining the D-Mark/franc parity

By Didier Maillard, chief economist, Banque Paribas

At a time when the French currency is experiencing a new wave of weakness and the commitment to the European exchange rate mechanism is under question, it is useful to go back to both economic and political fundamentals. These fundamentals greatly support the maintenance of the current parity with the D-Mark.

First, the French commitment to low inflation results from more than just the unavoidable consequence of a commitment to European construction, and removing the link with the D-Mark would be widely

interpreted as a renunciation of this low inflation policy. Indeed, the French economy experienced, in the late seventies and early eighties, the absence of a trade-off between inflation and unemployment and the need for low inflation as a condition to sustainable growth and job creation.

Breaking the link with the best-managed currency over the last 40 years would partly mean giving up once again the fight against inflation, and would rapidly have economic costs, but also political costs. If inflation is not a cause for street demonstrations, the French are now used to price stability, and the prospect of an end to this stability in the context of a currency devaluation and worst compensation for savings would undoubtedly hit a large share of the population. Whatever the gravity of the unemployment problem,

few of those people would be convinced that the losses they would endure were necessary to improve the job picture, and they would be right in thinking that way.

Of course, French unemployment remains high and will continue to grow, hitting more than 12 per cent of the workforce at the end of this year. But core unemployment is mainly due to labour market rigidities, and monetary easing would be of little help in reducing it. What is needed are structural measures, which can be implemented and acted on slowly. The government began tackling the problem by reducing employers' social contributions on less skilled jobs and limiting the rise in the minimum wage to the minimum increase. The government's relative prudence so far in this respect, due to political

constraints, may well be regretted.

Second, France is not in a bad competitive position, as the records of its external balance tend to show, although it is, to some extent, helped by the contraction in internal demand. Since the last realignment in the ERM in January 1987, the competitive position vis-à-vis Germany has improved, especially if unitary wage costs are considered. Global competitiveness was naturally hit by the devaluations of the pound, the lira and the peseta (which together amount to roughly 30 to 25 per cent of France's competitors), but part of these moves were just a correction of overvaluations of these currencies over the last five years. Moreover, the impact of such devaluations is more or less offset by the rise of the dollar and the yen.

Even if a depreciation of the franc

would stimulate exports and contain imports, it is not the key to the present problems facing the French economy, which are a lack of confidence and excessive precautionary savings.

France's success in curbing inflation over the last ten years has potentially led the EMS to "two-anchor" equilibrium, as the D-Mark keeps the benefit of the long-term credibility of price stability. The Bundesbank has built, even if Germany's latest performance is worse than that of France, the "two-anchor" situation means that in the long run depreciations of one currency against the other are both equally likely and unlikely. As a result, interest rate premiums should disappear as the expected returns in assets of both countries should not be affected by foreseeable moves in exchange rates.

However, such a situation may

well prove an unstable equilibrium in the short term, in the absence of interest rate spreads. This disequilibrium will periodically put into question both the franc and D-Mark currencies on an alternate basis, and will be sustained by news of relatively little actual significance. In addition, this lack of stability is encouraged by the ease and inexpensive cost of switching from one currency to the other.

Should progress be made on the future merger of currencies, we would be more comfortable to predict a lasting stability. A renewed prospect for monetary union, and a more concrete indication of the path to it, would help stabilise an otherwise weak equilibrium. This would require political progress. But even in its absence, the case for ending the ERM link is supported neither by economic nor political reasons.

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de Rivoli, F-75004 Paris Cedex 01. Tele-
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■ Bundesbank batters down hatches ■ Gold price pushed up ■ Whitehall claims vindication

Frankfurt dives for cover from the flak

By Andrew Fisher in Frankfurt and Judy Dempsey in Berlin

THE BUNDESBANK took up an increasingly embattled position yesterday, as its smaller than expected interest rate cut and an ambiguous comment by one of its directors led to confusion and criticism among economists and currency dealers.

Mr Johann Wilhelm Gaddum, a Bundesbank director, said the German central bank would not act to stop money market rates from falling below the discount rate - unchanged at 6.75 per cent on Thursday - if intervention in the European Monetary System led to a flood of liquidity.

He said the bank would not offer Treasury Bills to soak up liquidity created by currency intervention.

Thus call market rates could fall below the discount rate and the securities repurchase (repo) rate, now at 6.95 per cent.

Mr Gaddum's comments, which appeared to go against the Bundesbank's refusal to

cut official rates further, caused considerable uncertainty in the markets.

"It seems a rather crazy statement," said Mr Gwyn Hache, a senior economist at James Capel, the UK investment house.

This week the Frankfurt-based Bundesbank cut the Lombard rate by half a percentage point to 7.75 per cent, disappointing those who had hoped for a discount rate cut to ease strains on the EMS.

Further indicating the continuing pressures on the Bundesbank, Mr Otmar Ising, another director, declined to appear on a lunchtime financial television programme yesterday, having previously confirmed his attendance.

While economists generally felt that the European exchange rate mechanism could not hold out in its present form much longer, they were unsure whether anything would happen this weekend.

Mr Hans-Helmut Kott, economist at Deutsche Girozentrale, called this week's Lombard rate cut "a purely symbolic

action that will only cause irritation at best".

He felt fairly certain that something would occur this weekend, in view of the burden placed on the French economy by the franc's current parity and the high interest rate levels needed to support this.

"The Bundesbank could be starting its holiday with a working weekend," he added. Mr Adolf Rosenstock, economist in Frankfurt for Industrial Bank of Japan, said: "We are probably already experiencing the agony or even the final hours of the EMS's fixed rate system."

In Bonn, government officials refused to comment publicly about what impact the Bundesbank's actions would have on the future of the ERM.

But privately officials said they were increasingly concerned about relations between Bonn and Paris in the light of the Bundesbank's decision to give priority to the domestic economy.



Gaddum: his comments caused uncertainty in the markets

Gold price bursts \$400 level

GOLD'S PRICE burst through the psychologically important \$400 a troy ounce level yesterday for the first time since the Gulf war 31 months ago, writes Kenneth Gooding, mining correspondent.

New York investment funds used the turmoil in European currency markets as a launching point for another attack on a target they have been attempting to reach since the April campaign by high-profile financiers Sir James Goldsmith and Mr George Soros re-ignited interest in the gold market.

Gold jumped by \$9.40 an ounce in London from Thursday's closing price to reach \$404.50 early yesterday after overnight buying by the US funds drove it up in the Far East. More New York buying emerged late in the day to take gold to \$405.75 an ounce, up \$11.65, by the close of trading in London.

Traders report that physical demand for the metal has virtually dried up because of the speed of the gold price rise from a seven-year low point of \$327 an ounce in January.

Fund managers rush to limit their exposure

By James Blitt, Economics Staff

POLITICIANS in Europe have frequently blamed speculators for the crises in the exchange rate mechanism. But the frantic selling of the franc yesterday appeared to be by pension funds and companies with international investments, who do not normally take speculative positions in currency markets.

Throughout the last few days, fund managers have been particularly concerned that a devaluation of the French franc could undermine the value of French bonds and equities they hold. They have therefore hedged the exposure of these instruments by selling the French franc now, fearing that its exchange rate will soon depreciate.

Pension fund managers intervene in the currency markets comparatively rarely. But the sums that they have under management are vast, and

much greater than the reserves held by central banks.

The other group of players who were selling the French franc yesterday were the New York based hedge funds - of which the Soros Fund, run by the entrepreneur, Mr George Soros, is the best known.

These funds are highly speculative players, but for most of this week they have taken a very low profile. Last weekend, Mr Soros told a French newspaper that he was not speculating against the franc because of his support for European monetary union.

Yesterday, he changed his stance, in a statement saying that it was "futile to protect the European Monetary System by abstaining from trading in currencies."

That statement may have brought a new wave of panic to the market. But, by the end of European trading yesterday, the hedge funds still appeared to be playing little part in this crisis.

Grim satisfaction in London

UK harks back to warning of 'fault lines'

By Philip Stephens, Political Editor

THE BRITISH government last night found it hard to disguise a mood of grim satisfaction, as its European partners struggled to preserve the European exchange rate mechanism.

Humiliated by sterling's departure last autumn from the currency grid, Whitehall officials and their political masters could at last claim vindication. The system, as Mr John Major declared at the time, had indeed developed serious fault lines. The prime minister had been right also to declare European monetary union a distant dream, not a short term reality.

But the inevitable self-justification disguised a less sanguine assessment of the prospects for the European - and British - economies if the present era of managed exchange rates were to end in the ERM's disintegration.

The Whitehall judgment was that the decoupling of the French franc and other ERM currencies from the D-Mark could support Britain's fledgling economic recovery. Lower interest rates and stronger growth in the rest of the Community would provide expanding markets for the exports on which the UK upturn depends.

Senior Conservative Euro-sceptics were quick also to point out the potential political gains for the UK government.

A dramatic failure of Franco-German monetary co-operation would impose severe strains on the core alliance which has so

often consigned Britain to the European sidelines. Mr Major's hopes of a more symmetrical relationship between London, Bonn and Paris would be greatly strengthened. So, too, would Mr Major's voice in decisions over the next few years on the Community's future.

But the more cautious British ministers - Mr Douglas Hurd, the foreign secretary, and Mr Kenneth Clarke, the chancellor, among them - see countervailing disadvantages.

Mr Clarke, long an advocate of managed, stable exchange rates, has no advantage in competitive devaluations across the EC. The benefits of lower interest rates might be offset in the short term by the damaging blow delivered to business confidence by a collapse of the exchange rate grid.

Even though sterling's exit from the ERM led to sharply lower borrowing costs, the immediate effect was to damage the recovery prospects.

The advantages Britain secured following sterling's devaluation last autumn have already been eroded by the recent rise in the pound's value. Exporters are warning that weakening exports threaten the pace of growth.

Nor does the government see any medium-term gain for industry from a return to the era of free floating. The single market was designed to create a level stable playing field for European business. Britain would lose as much as anyone if that were undermined by unpredictable gyrations in exchange rates.

Competitive gains threatened

Opening the way to base rate cuts

By Emma Tucker and Peter John in London

WITH THE European exchange rate mechanism on the brink of collapse, analysts were yesterday relishing the implications for the UK economy.

The release of continental European currencies from the mechanism would allow governments to cut interest rates and stimulate economic growth. This would help UK manufacturers struggling to sell exports in exceptionally sluggish European economies.

The danger for the UK is that the competitive gains of devaluation that have boosted UK exports since September would be threatened by devalued European currencies. UK exporters would have to work harder to maintain market share.

But, while a collapse of the ERM could threaten the UK's competitive gains, it would also open the way for further UK base rate cuts as former ERM members gave up the battle to hold their currencies at certain values

and eased monetary policy.

The UK government bond market reflected that belief with prices rising sharply and pushing long-term yields, which mirror the market's perception of future inflation, down to 7.825 per cent, their lowest level for well over 20 years. The 10-year gilt futures contract for September shut forward almost a full percentage point and closed 2 higher at 109.23 after some investors took profits.

The Bank of England took advantage of the continued enthusiasm for gilts by auctioning a £1.25bn issue of stock. Although gilts thrive on political stability, buyers ignored the potentially disruptive effect of a huge Tory by-election defeat in Christchurch, southern England.

Economists continued that most of the buying was fuelled by foreign investors attracted by the UK's status as a currency safe haven. They said that if the existing structure of the ERM crumbled the UK's competitive advantage might be eroded as ERM members cut rates independently.

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NATIONAL SAVINGS

SECURITY HAS NEVER BEEN SO INTERESTING.

NEWS: INTERNATIONAL

Israeli onslaught ignores Hizbollah truce offer

By Julian Ozanne in Jerusalem and Mark Nicholson

ISRAEL yesterday ignored a truce offer from pro-Iranian Hizbollah guerrillas and vowed to continue its devastating aerial and artillery bombardment of villages in southern Lebanon.

The decision not to let up in its offensive came amid continuing US efforts behind the scenes to arrange a ceasefire after six days of bombing of southern Lebanon by Israeli warplanes and heavy calibre cannons.

Israel's cabinet, which held a special meeting in Tel Aviv, said it would continue the onslaught which has driven more than a quarter of a million Shia Muslim villagers from their homes until the Hizbollah has stopped their rocket attacks on Israel. At least 126 people have been killed since Sunday and more than 500 wounded.

Before the cabinet meeting, Sheikh Hassan Nasrallah, secretary-general of the Islamic fundamentalist Hizbollah (Party of God) said they would stop their attacks after Israel carried

out a "complete and permanent halt of aggression against villages and civilians."

Beirut interpreted the move as showing a measure of defensiveness from Hizbollah, which is the target of increasing criticism from many among the 300,000 refugees from the south for having triggered their plight.

With Israel apparently implacable in its insistence that it will not stop the bombardment without hard guarantees first that Hizbollah attacks will also be halted, all eyes

in Beirut yesterday were fixed firmly on Damascus, where Syria, Iran and Lebanon held a second day of talks.

The Lebanese government has said it is politically incapable of taking action against Hizbollah, although it is widely felt by diplomats and Lebanese politicians that the Lebanese army could control the fighters if Syria gave its political approval.

The audaciousness of Mr Rafik al-Hariri, the Lebanese prime minister, to find some such formula is clearly signalled by the fact that he has now

spent most of the last three days in Damascus, where he talks with Mr Farouk Sharaa, the Syrian foreign minister, were unexpectedly joined on Thursday by Mr Ali Akbar Velayati, Iran's foreign minister - bringing together in Damascus both of Hizbollah's main sponsors.

Nothing had emerged from these talks by late last night but Lebanese politicians expected an announcement that Mr Warren Christopher, the US secretary of state, would postpone his visit to the region by at least 48 hours as an attempt to

increase further the pressure on Syria to agree to rein in Hizbollah. Meanwhile, in a special briefing for US reporters Mr Shimon Peres, Israel's foreign minister, said a government had ruled out both a ground offensive and an expansion of the area of southern Lebanon it controls - an enclave Israel calls a "security zone".

His remarks followed a large deployment of tanks and motorised infantry into the huffer zone on Thursday evening.

A blow for compromise, Page 9

Clinton budget to face final vote

By George Graham in Washington

PRESIDENT Bill Clinton's budget will face a final vote in Congress next week after negotiators from the House of Representatives and the Senate yesterday wrapped up a compromise bill.

Negotiators settled on an increase of 4.3 cents per American gallon in the federal petrol tax, slashing the revenue Mr Clinton had planned to raise from a broader energy tax and in the process disappointing both left wingers who wanted more money for social programmes and fiscal hawks who wanted a more serious effort at curbing the budget deficit.

Passage of the budget next week is by no means assured. The House passed its original version in May by only six votes, while in the Senate Vice-President Al Gore's casting vote broke a 49-49 tie last month.

"It'll be tight as a tick in the Senate, but I think in the end we'll push the bill over the goal line in both bodies," Mr Roger Altman, the deputy Treasury secretary, said yesterday.

Even if the budget does pass, it will bear only a passing resemblance to the economic programme originally outlined by Mr Clinton when he took office.

The centrepiece of that programme was a new energy tax levied at 25.7 cents per million British thermal units on most fuels, with an additional 34.2 cents per million BTUs on oil, to raise \$71.4bn over five years.

House negotiators this week went along with the Senate's decision to drop this broad energy tax in favour of simply increasing the petrol tax, and on Thursday night they even gave up their efforts to cajole the Senate into accepting an increase greater than the 4.3 cents per gallon it passed in June.

The result is only \$23bn of revenue over five years, making it much harder to pay for the urban and low income spending programmes that some House members have made the price of their support.

Congress has also resuscitated many of its favourite pork barrel spending programmes, such as honey subsidies and rural electrification loans, as well as preserving tax loopholes such as the tax deductibility of business meals, while slashing Mr Clinton's proposals to shift spending into new areas he classified as "investments".

In the end, Congress's unwillingness either to raise energy taxes or to cut spending has even forced the Clinton administration to give way on its overriding goal of trimming the federal budget deficit by \$500bn over five years from its current projected total.

The compromise budget bill seemed sure to fall short of the \$500bn target, although Democratic leaders were still scrambling to ensure it beat the \$482bn cut claimed by the 1990 budget agreement.

Turkey's bank chief resigns

TURKEY'S respected Central Bank Governor Refik Saracoglu announced his resignation yesterday after a long policy dispute with Mrs Tansu Ciller, the new prime minister, John Murray Brown writes from Istanbul.

The departure of Mr Saracoglu, a pivotal figure in the country's economic progress of the 1980s, will inevitably raise new doubts about Turkey's commitment to a policy of stable prices.

Mrs Ciller has criticised the governor for his support of high interest rates to protect the currency at a time when exports are falling and the trade gap widening.

However, Mrs Ciller's failure to curb the fiscal deficit had forced her to turn increasingly to the Central Bank, much to the governor's chagrin, for short-term advances - thus fuelling monetary expansion.

In 1992, the Bank abandoned its monetary targeting and adopting a more limited strategy to dampen exchange rate volatility, vital if Turkey is to bring inflation down from around 80 per cent.

Turkish bankers yesterday played down the impact on the markets, although the timing, coming just before the weekend, suggests the government is keen to limit the damage.

Rabin faces his greatest challenge

Israel's PM is being dragged into Lebanese mire, says Julian Ozanne

MR Yitzhak Rabin, Israel's prime minister, is facing his greatest challenge since taking office a year ago: how to draw Israel's bombardment of southern Lebanon to a close in a way that maximises his domestic standing, wins back international support and advances his government's peace agenda while continuing to guarantee what he sees as the country's security.

Having gone in to Lebanon expecting quicker results, Mr Rabin now faces the prospect of being sucked into the Lebanese quagmire, as Israel was when it invaded in 1982 and is scrambling around for ways to get out with tangible benefits.

The relentless bombardment of Lebanese civilians has alien-



Rabin: expected quick results

ated international opinion, including the US, threatened the Middle East peace process and revealed political strains in his coalition government.

Yet it has also exposed one of the foundations of Mr Rabin's premiership: his belief that only by acting tough can he force Arab states into concessions in the peace process and maintain a broad popular base for the best peace deal.

"Rabin is committed to peace but don't forget he was elected on a narrow margin because people saw him as a strongman who made no concessions on the security of Israel," said Mr Yoel Marcus, an Israeli political commentator. "He can say to the public: trust me in peace talks because the first thing on my mind will be a deal which does not harm Israel's existence and its security."

Supporters of Mr Rabin's labour-led coalition - the left-wing Meretz party and the five Arab MPs - continue to criticise the Israeli operation as "immoral," largely for its tragic impact on the lives of half a million Shia villagers in southern Lebanon.

At least half the cabinet, including four Labour ministers, have voiced their opposition to the operation. But the ability of the cabinet and parliamentary critics to influence Mr Rabin remains severely circumscribed by the initial popularity of the action and by the fact that any serious threat to the coalition could pave the way to a return to power by the right-wing Likud party.

An opinion poll in the Yediot Achronot newspaper yesterday

showed 93 per cent of Israelis supported the action when interviewed on Wednesday.

For the moment, Mr Rabin has successfully boosted his image as a tough and unrepentant warrior for Israel - undermining the claims of Likud as the party of "security."

However, there are political limitations and diplomatic dangers with this policy. Any commitment of ground troops in Lebanon could place unbearable strains on the coalition and quickly turn the public, which remains haunted by the disastrous 1982 war with Lebanon, against the government. Political analysts say Mr Rabin is still haunted by the memories of the 1967 Middle East war when he was Chief of Staff and continues to see peace with Syria as the main ambition of his premiership. He views the pro-Iranian Hizbollah guerrillas, the ostensible target of the offensive, as proxies of Syrian interests in the region.

Analysts say at least part of Mr Rabin's strategy is to show Syria and other Arab states that Israel under Labour has not gone soft and will negotiate from a position of strength. Mr Rabin also aims to exert maximum pressure on Syria to make concessions on a comprehensive regional peace deal.

The deal would involve the phased return of most or all of the Israeli-occupied Golan Heights to Syria in return for full peace, including trade and diplomatic relations and guaranteed security on both the Israeli-Syrian and the Israeli-Lebanese borders. Israel would also agree a phased withdrawal from southern Lebanon.

Senior government officials believe the present crisis could be turned into an opportunity with the involvement of the US. But this would assume Damascus, Beirut and Washington would accept a delinking of the Palestinian and Jordanian talks from those with Syria and Lebanon - a move many believe is unlikely.

Critics, however, say Mr Rabin's military strategy, which remains unsuccessful so long as Hizbollah continues to hit Israel with rockets, depends far too much on a response from the other side. After President Bill Clinton's praise for "Syrian restraint" during the conflict they say Israel will have to pay a price to Syria at the negotiating table for allowing Damascus to emerge as the key to a regional solution. Furthermore, they believe that without a durable peace deal, the operation could swell the ranks of Hizbollah, destabilise Lebanon, and create a worsening security threat to Israel.

Mr Rabin's offensive against Lebanon was always risky. Unless a there is a breakthrough soon, it is difficult to see how the prime minister will be able to extricate himself from the crisis unscathed both at home and abroad. The longer the conflict continues, the greater the risks to Mr Rabin's international and domestic standing and to the entire Middle East peace process.

Italy gropes through bribes maze

By Robert Graham in Rome

THE mother of all bribes paid out in Italy's corruption scandals is now known to be L1,350bn (\$56bn).

Breaking the wall of silence surrounding this payment to political parties, individual politicians, businessmen and middlemen has been a central objective of Milan magistrates since the beginning of the year.

The payments relate to the "Enimont affair" - the abortive attempt in 1989-90 to reorganise the chemicals industry by merging public sector interests of Eni, the state oil concern, with private sector assets of Montedison, the Ferruzzi group's chemicals arm, in a joint venture, Enimont.

Milan magistrates were convinced the murky background to the Enimont affair would expose the extent to which the government, controlled by Christian Democrats and Socialists, subverted Italy's business life to their illicit ends. If the allegations, leaked by magistrates over the past 24 hours, are proved correct, discrediting of the political establishment will be complete.

The magistrates appear satisfied they have got what they want. Two key witnesses in the Enimont affair - Mr Giuseppe Garofano, former Montedison chief executive, and Mr Carlo Sama, his successor, who is married to a daughter of the founder of the Ferruzzi empire - have been secretly released from jail. This emerged yesterday, though they were released to house arrest on Thursday.

Milan magistrates have adopted a policy of keeping people in jail on corruption charges until they confess. Mr Garofano was arrested in Switzerland on July 13 and extradited with unprecedented speed two days later. Mr Sama was arrested on Friday last week, the day when Mr Raul



CAUGHT IN WEB OF ALLEGATIONS: Former Italian prime minister Giulio Andreotti (left), who denies any wrongdoing, votes to lift his parliamentary immunity, allowing magistrates to investigate his alleged role in the death of a journalist

Gardini, his brother-in-law and former head of Montedison, committed suicide - the fourth in the Enimont affair.

Mr Gardini is alleged to have arranged a first bribe of L15bn, paid to the Christian Democrats and Socialists in 1989 to ensure Montedison got tax breaks when it merged its chemical interests with those of Eni to form Enimont.

The big bribe came when Mr Gardini broke his pact with Eni over joint control of Enimont. Unknown to Eni, then run by Mr Giuseppe Cagliari, who also committed suicide last week, Mr Gardini acquired 11 per cent of the outstanding 20 per cent of Enimont through three associates. Eni found out and persuaded a Milan court to freeze Enimont's shares. These were then placed in the custody of Mr Vincenzo Palladino, currently deputy chairman of Banca Commerciale Italiana.

To extricate himself, Mr Gardini offered to sell Montedison's 40 per cent stake to Eni. For this Eni paid L2,805bn - now believed to be at least L600bn above the real value. Eni paid a further L1,800bn for minority shareholders, including Mr Gardini's associates. In return there was a political pay-off of L100bn plus \$20m.

This amount is believed to relate to 5 per cent of Montedison's real profits on the Enimont stake sale to Eni. Montedison was to pay over the funds through off-balance-sheet operations, phoney property deals and transactions between foreign subsidiaries.

Milan magistrates are understood to have warned eight senior politicians they are under investigation for being involved in this alleged payment. Mr Arnaldo Forlani, Christian Democrat leader at the time, has already got such

a warning, in which he is alleged to have received L35bn.

Mr Bettino Craxi, then leader of the Socialist party which regarded the oil and chemicals industry as its fiefdom, is alleged to have got a staggering L750bn. He, too, denies involvement, but yesterday admitted the party had received political contributions from both Montedison and the Ferruzzi group as a whole.

The rest of the funds were allegedly handed to Mr Paolo Cirino Pomicino, a senior Christian Democrat minister and close ally of the then premier, Mr Giulio Andreotti, and Mr Claudio Martelli, the Socialist deputy prime minister.

To smooth the deal, it is alleged Mr Palladino, who was supervising the frozen Enimont shares, was bribed L2.5bn. He was arrested on Thursday, but his lawyer yesterday denied this sum was a

bribe and said it was a professional fee from Montedison. It is further alleged share dealings during the Enimont affair were smoothed by the help of Mr Bruno Pazzi, head of Consob, the Milan stock exchange watchdog body. Mr Pazzi, an appointee of Mr Andreotti, was arrested in connection with Enimont on Wednesday.

Even after Montedison pulled out of Enimont, Ferruzzi-Montedison went on paying the politicians - allegedly handing out up to L7bn for the April 1992 elections to the five parties that formed the government coalition during the Enimont affair.

The Republican Party yesterday admitted to receiving L300m to this effect.

Eni is still in arbitration with Montedison over what it claims to be over-valued chemical plant brought by the latter into the Enimont joint venture.

Japan's LDP picks reformer as leader

By Robert Thomson in Tokyo

JAPAN'S Liberal Democratic party yesterday chose a relatively young, self-proclaimed reformer, Mr Yohei Kono, as its president in an attempt to prove to the public that the scandal-stained party is starting afresh.

In the past, the LDP president has automatically become the prime minister, but the fate of Mr Kono, 58, will be determined at a parliamentary session scheduled for next Thursday, for which a coalition of seven opposition parties has secured enough votes to defeat the LDP.

Unless the coalition crumbles in the next few days, Mr Kono, the chief cabinet secretary, will find himself the leader of the largest opposition

party in the Japanese parliament, though he expressed pride yesterday that he was chosen "in these difficult times."

Mr Kono defeated Mr Michio Watanabe, 70, the former foreign minister, in an intra-party election by 208 votes to 159. The appointment of the ailing Mr Watanabe would have been a sign that the LDP had learned little from the events of the past few weeks, highlighted by the loss of its parliamentary majority in a general election.

The party presidency was vacant after the resignation of Mr Kiichi Miyazawa, 73, who will remain prime minister until the parliamentary vote. There are two candidates for the prime ministership, Mr Kono and Mr Morihiro Hosokawa, the Japan New party leader and the coalition's chosen representative.

A stable coalition can expect at least 245 votes in the parliamentary poll, while the LDP is certain of only 225 votes and is relying on a rupture in the coalition to avoid a term in opposition for the first time since 1985.

The LDP and Mr Kono are hoping that factional strife in the Social Democratic party, the largest opposition party, may prompt some left-wing members to abstain in protest at the party's joining of hands with conservative groups.

Ms Takako Doi, the former SDP leader, said yesterday the party was losing its identity by linking with parties formed by ex-LDP members, but did not say she would abstain. Ms Doi

has good reason to support the coalition, as she may receive a senior post in the cabinet or be chosen as lower house speaker if the seven parties form the next government.

A member of Mr Miyazawa's faction, Mr Kono's claims as a reformer are based on his own defection from the LDP in the mid-1970s at the time of the Lockheed bribery scandal. He became a member of the New Liberal Club, which was reunited with the LDP in 1988, although the party had done little to end the "money politics" behind most Japanese scandals.

"It is my responsibility to restore public confidence in the LDP and politics," Mr Kono said. "If you look at the coalition and their selection of a leader, you have to say that

the choice of Mr Hosokawa was very unclear. Why didn't the SDP, the largest of the parties, provide a leader?"



Kono: defeated Watanabe

the choice of Mr Hosokawa was very unclear. Why didn't the SDP, the largest of the parties, provide a leader?"

Job openings and overtime drop sharply

JOB openings fell sharply in Japan last month, while overtime in the manufacturing industry contracted by a year-on-year 15.7 per cent, suggesting a continued economic slowing in spite of official suggestions that the downturn has ended, writes Robert Thomson.

The labour ministry said the ratio of job offers to applicants fell from 0.81 in May to 0.74, although the official jobless figure, slow to reflect changes in the labour market, was unchanged from a month earlier at 2.5 per cent.

New job offers fell in all sectors, apart from construction, which has received most of the benefits of two government spending packages over the past year. Offers in the manufacturing sector fell 28.3 per cent from a year earlier and in the service sector by 15.4 per cent.

Meanwhile, the 15.7 per cent fall in manufacturing industry overtime followed a 14 per cent decrease in May. For all industries, average overtime contracted 10.8 per cent in June.

The weakness in the job market is an indication of the decline in economic activity, and a sign that the seven-party coalition expected to form a government next week will face immediate challenges in economic policy.

Consumer prices in Tokyo this month rose 0.4 per cent from June and were 1.7 per cent higher than a year earlier, due to an increase in vegetable prices blamed on an unusually long rainy season, the management and coordination agency said yesterday.

Apart from vegetables, there was a 0.5 per cent increase in housing expenses, reflecting the higher rents in desirable residential areas. Clothing and footwear prices fell 2.5 per cent, apparently because of an increase in cheaper products imported from China. Construction orders received by leading contractors fell 17.1 per cent in June, compared with a year earlier, with private sector orders down 24.7 per cent and those from manufacturers down 50 per cent.

UN probes torture claim

THE United Nations last night ordered an immediate inquiry into charges by a London-based rights group that UN troops in Somalia killed and tortured civilians and little was done to discipline the offenders, writes Michael Littlejohns in New York.

Mr Boutros Boutros Ghali, UN secretary general, said the allegations by Africa Rights, a part of a prestigious group that includes Helsinki Watch, were being taken "very seriously." The report was transmitted to Admiral Jonathan Howe, his representative in Mogadishu, who was already discussing

the question with General Cevik Bir, the UN force commander, and other military officers.

There have been persistent charges of UN excesses from other quarters, and a public row with General Bruno Loi, commander of the Italian contingent, led to a demand by New York that he be sent home. Italy, Germany and Ireland responded by calling for a thorough re-examination of the UN role in Somalia but this has yet to be done.

Africa Rights asserted that UN actions had earned the hatred of the very people the

troops were sent to help and that Admiral Howe, an American, was considered by them to be "another warlord."

The report alleged that Pakistani troops machine-gunned demonstrators in Mogadishu last month and that an 850-strong Belgian contingent in Kismayu was especially brutal, dragging a Somali through the streets behind a military vehicle and hitting the body of another to a tank.

In another incident, the Belgians were said to have driven off field workers with machine gun fire and then to have stolen an entire crop of melons.

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Barclays to amend client data policy

By John Gapper
Banking Editor

BARCLAYS yesterday promised to amend its customer application forms after banks were told that they must in future allow customers to choose whether their personal account details can be used by subsidiaries to market products.

Barclays, Britain's biggest bank, has required customers applying for new accounts, credit cards or loans to sign forms saying that they consent to account information being given to other companies in the Barclays group.

The review committee considering amendments to the voluntary code of banking practice said that it would alter the code from next March to ensure that this kind of approach to consent to the internal use of data for marketing products was barred.

The committee warned in its annual report that if customers are asked to agree to their names and addresses being passed to other companies within a banking group they should be "given a clear option to say no if they wish".

The committee also criticised banks for their "undesirable coyness" over informing customers about their internal complaints procedures, and for using "gobbledygook" in contracts setting out conditions of services.

The ruling comes after con-

trovery over the ways in which banks have interpreted the code's requirement that customers should give "express consent" before their account details can be used for purposes such as life insurance selling.

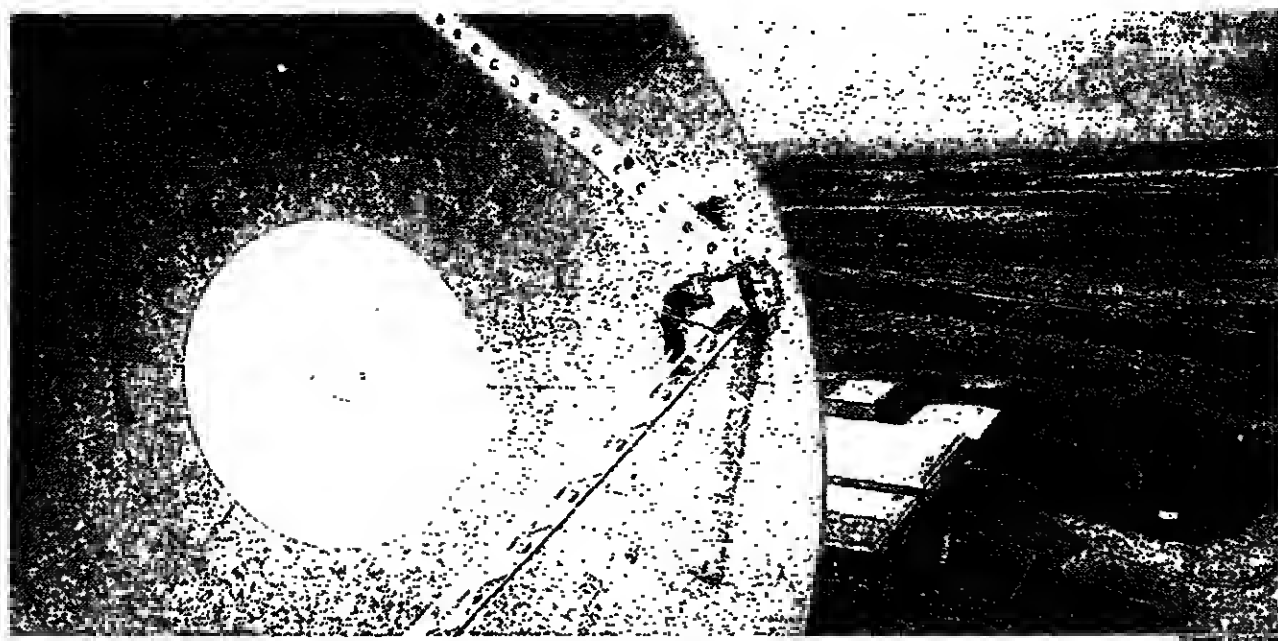
Sir Bryan Carsberg, director-general of fair trading, and Mr Eric Howe, the data-protection registrar, have both expressed concern over apparent efforts by banks including Barclays and National Westminster to circumvent this.

Sir Bryan recently accused some banks of breaking the "spirit" and perhaps even the "letter" of their code. NatWest has ensured its life insurance sellers access to the bank's current account data by making them bank employees.

Mr Howe said in his annual report this month that the code's benefit was "clearly negated" if banks refused to allow customers access to services unless they signed forms giving consent for data disclosure within the group.

The committee said that "tacit acquiescence" as a result of customer inertia or "their understandable failure to read through the fine print to the end will not be regarded as an acceptable form of consent" when the code is amended.

The committee, chaired by Sir George Blunden, is reviewing the code after receiving over 20 submissions from organisations including consumer groups.



Strong signal: British Telecommunications reported a 14.7 per cent increase in international telephone call turnover in its first-quarter figures published this week. Much of the traffic goes through the 31-year-old Goonhilly earth station in Cornwall

High crime risk for small business

SMALL BUSINESSES run a far greater risk of becoming a target for crime than individuals or homes, a Home Office study of crime prevention schemes has shown, Charles Ratchelor writes.

The study found that 40 per cent of burglary victims suffered a second burglary within

12 months, and 48 per cent of "re-burgled" businesses suffered a third burglary.

There was widespread concern among owners of small businesses - up to two thirds were "worried or very worried" about becoming victims of crime.

The study, which looked at

small businesses in Hartlepool, Lewisham in south-east London, Nottingham, Salford, Sunderland and Wirral, recom-

mends a seven-point plan for crime prevention. This includes closer co-operation between businesses in High Street Watch schemes, more help from large companies and

better collection of data to identify patterns of crime against small businesses.

The Prevention of Crime Against Small Businesses: The Safer Cities Experience. Home Office Crime Prevention Unit Series Paper 45. Crime Prevention Unit, 59 Queen Anne's Gate, London SW1H 9AT. Price

Group aims to cut level of skin cancer

By Daniel Green

BRITAIN has had its worst late-July weather for more than a decade, according to official figures.

They will be welcomed by the National Radiological Protection Board, an independent body, which yesterday launched a campaign to discourage sunbathing.

The board is to publish weekly reports on solar ultraviolet radiation, the part of the sun's rays that cause tanning and burning.

From next year the service will give daily forecasts so that the sun-sensitive can take evasive action. The board recommends wearing sunglasses, a broad-brimmed hat and "clothing with a tight weave".

Swimmers should use a sun block with a high sun protection factor. A protection factor of 15 allows the wearer to stay in the sun 15 times longer without burning than without any protection.

Without protection, it takes just 23 minutes on a clear summer's day for sensitive skin to burn in the UK, the board said.

In the Caribbean it takes little more than half that. Sunburn increases the risk of skin cancer, and Britons' carelessness could be behind a rising incidence of the disease. Women are more at risk because they sunbathe more than men, said the Imperial Cancer Research Fund. Pale skin and slow tanning show a greater sensitivity, but more important is a family history of skin cancer.

The government's Health of the Nation white paper last year said the increasing trend of skin cancers should be halted by 2005. The Department of Health has backed the board's initiative.

Government figures show incidences of skin cancer in England increased by a quarter between 1980 and 1987, the most recent year for which statistics are available.

Sufferers of the most common skin cancer need an operation to remove the diseased area. Half of those who develop the more rare malignant melanoma die from it. There were 1,081 recorded deaths from malignant melanoma in 1991 compared with 815 in 1981.

ITV chiefs may seek court test of ITC

By Raymond Snoddy

SENIOR ITV executives want the powers and responsibilities of the Independent Television Commission to be tested in court after the row over the timing of News at Ten.

The ITC and the ITV companies have sharply different legal opinions on the issue of the main news bulletin.

A judicial review in the High Court is seen as ultimately the only way of deciding which opinion is correct and whether the ITC has the power to insist that the programme should run at a particular time.

Mr Greg Dyke, chairman of the ITV Association and chief executive of Looch Weekend Television, believes the issue goes much wider than News at Ten. He believes that the 1990 Broadcasting Act is ambiguous on the respective powers and responsibilities of the ITC and the ITV companies.

Apart from issues of timing, he would like a ruling on ITV's obligation to provide a diverse schedule of programmes.

One possibility to be discussed would involve persuading the ITC to acquiesce in an ITV application for a judicial review to clarify the issue.

Meanwhile opposition is growing to any relaxation of the rules preventing the nine largest ITV companies taking over each other.

The Glasgow-based Daily Record newspaper has published a letter from Mr Ian Lang, the Scottish secretary, to Mr Peter Brooke, the national heritage secretary, in which Mr Lang expresses concern about the implications of such a relaxation for Scotland. Regional programme-making obligations might still be enforced but there was no protection for network programme production in the event of a takeover.

Mr Lang argues for stricter rules so that, at least in Scotland, ITV companies cannot take over neighbours.

Even supporters of the relaxation of takeover rules, such as Sir Christopher Bland, LWT chairman, believe this is now less likely, partly because of the News at Ten row.

A number of City analysts have attacked the case for larger ITV companies and there seems little sign of a queue of potential continental European predators waiting for January 1 when any such group can more easily take over an ITV company.

CIT, the Luxembourg-based international broadcaster which is seen as one of the most likely predators, says it is more interested in UK radio in the short term. It would be interested in a joint venture with an ITV company in the future.

Mail group to launch £20m sales drive

By Raymond Snoddy

ASSOCIATED Newspapers is launching new tabloid supplements for its three main titles the Daily Mail, the Mail on Sunday and the Evening Standard in London.

Mr Bert Hardy, managing director of Associated Newspapers, said that the initiative, which will cost in the region of £20m in its first year, would be partly paid for by cost-cutting and a significant reduction in the group's television advertising, which totalled more than £11m last year.

The new supplements, with 48 pages and full colour, represent a departure for the middle market and are likely to intensify competition when they are launched in October.

The Daily Mail supplement will accompany the Saturday edition. It will be aimed at the family and include seven days of television listings.

The new Mail on Sunday section will feature reviews and have longer pieces of what Mr Hardy calls "reportage", aiming to increase the paper's appeal to broadsheet readers.

The Evening Standard's supplement will be published on Friday and include the week's television listings.

Mr Hardy said that five years ago the Daily Mail had an average of 40 pages with an advertising ratio of 38 per cent. Now the paper has an average of 64 pages with 32 per cent advertising.

During the same five-year period the Daily Mail's circulation has marginally increased. In January 1989 it was 1,736,000 and in June 1993, the latest official figures, it was 1,745,500.

Average circulation for the Mail on Sunday between January and March 1989 was 1,977m, and from March to June this year the figure was 1,985m. Immediate rivals such as the Daily Express and Sunday Express lost circulation during this period.

The newspaper price-cutting wars seem to have settled down. The Sun, which reduced its cover price by 5p to 20p on July 12, has gained about 7 per cent in circulation, almost certainly far below the necessary level to pay for the cut. The Daily Mirror has maintained its circulation in spite of being 7p dearer than The Sun.

Today has dropped between 0.5 per cent and 2 per cent in the battle, and the Daily Star has gained 2 per cent to 3 per cent as a result of its latest promotion.

This week's rise in the price of the Daily Mail of 2p to 32p has made no difference to circulation and the Daily Express follows on Monday with its own 2p rise to 32p.

Overall the popular newspaper market is up nearly 4 per cent following The Sun's initiative.

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Major postpones appearance at arms probe

Lord Justice Scott yesterday told Jimmy Burns which present and former ministers he wants as witnesses

MR JOHN MAJOR, the prime minister, is to give evidence in public to the inquiry into arms exports to Iraq on January 17 next year, it was announced yesterday.

Mr Major released a copy of a letter sent yesterday in reply to one sent to him on July 14 by Sir Richard Scott, the Appeals Court judge, who is presiding over the inquiry, inviting him to appear as witness in the week beginning December 13.

The change of date was by agreement to fit in with Mr Major's other engagements in December including the European summit.

The prime minister is expected to be questioned about the extent to which he knew about certain key Whitehall decisions relating to arms exports while he was foreign secretary and as chancellor of the exchequer.

In an interview with the Financial Times yesterday - his first since he was chosen to lead the inquiry last December - Sir Richard outlined a list of present and former ministers he wants to give evidence before Christmas.

They include: Baroness Thatcher, the former prime minister; former foreign office ministers Mr Timothy Renton, Lord Howe, Mr William Waldegrave, Mr Douglas Hurd, Mr David Melford and Mr Tristan Garel-Jones; former trade ministers Mr Peter Lilley and Mr Alan Clark; and Mr Michael Heseltine, the trade and industry secretary.

He said the inquiry had taken longer than he had expected and described it as looking "into a very murky and inaccurate crystal ball" - the world of arms trading and the machinery of Whitehall.

He now planned to have his report completed by the end of March, not by Christmas as originally planned.

In his letter to Mr Major, Sir Richard said delays in obtaining some documents from some government departments had "hindered the efficiency of the questioning of witnesses".

But in his interview yesterday he emphasised: "I have not had any impression of any deliberate attempts to withhold information, no civil servants or ministers have dragged their feet about appearing as witnesses."

As to the answering of questions by witnesses, some

witnesses have been forthcoming and extrovert in the way they answer questions and some have not. One knows that as a judge from witness-box appearances. At the end of the day, one has to consider the evidence as a whole and make one's mind up as to what to make of it."

After a week's holiday with his family - "the only complaints I've heard about my work are from my wife," he remarked - he will use the inquiry's summer recess to begin writing his introduction to the report and to sift through additional documents.

He insisted that it was too early to be drawn on the report's conclusions and warned against exaggerated expectations concerning its potential political fallout: "I do not see myself as holding a gun pointing at the heart of government."

Sir Richard said he did not think his terms of reference included proposals for anti-secrecy laws such as a freedom of information act or rules on

public immunity certificates, which are used by the government to restrict access to confidential documents.

"I find it quite unlikely that I am going to be recommending any sort of legislation on [public immunity]... because I think it is essentially the sort of area that ought to be left to be developed flexibly," he said.

But he indicated that the evidence he had heard so far pointed to the need for a reform of Britain's exports and licensing procedures and a conclusion which could act as an incentive for ministers and civil servants to govern more openly in future.

He revealed that one of the main reasons for the delay in the inquiry's proceedings had been his discovery that companies may have been getting round legal restrictions on arms exports to Iraq by obtaining "open licences" to export to other Middle East countries such as Jordan and Saudi Arabia, which are not subject to the stricter licensing regime and can be used as diversionary routes. He was only now beginning to get the documentation on open licensing contracts from government departments.

"I do not know how far the implications of this extend, but this is plainly an area which could quite possibly have been used for a number of exports to Iraq, without any breach of statutory export regulations."

Sir Richard rejected the argument by some officials that his report should not consider matters of ethics and public accountability in the government's handling of its export policy to Iraq.

"I think government should be prepared to share with the public, on whose behalf they govern, its concerns and aims and the reasons why important decisions are taken."

Sir Richard defended his decision to hear evidence from



Lord Scott wants to hear the evidence of Baroness Thatcher, Lord Howe and Michael Heseltine

"I know, that in many cases that is not practical for reasons of security and other overriding national interests that may from time to time arise, but as a general proposition, I do not think that government [policy], on behalf of the public, that is kept from the public, is to be recommended."

Sir Richard defended his decision to hear evidence from

members of the intelligence services behind closed doors. He had been "persuaded" by officials from MI5 and MI6 that it would be wrong to identify those witnesses or reveal the content of their evidence in his report where it related to their operations.

"I think the personal safety of some of the witnesses would be put at risk [if they were

identified] and that is not a risk I am prepared at any degree to run. If you are going to have intelligence agencies and secret services, they had better be kept secret. Otherwise there is no point in having them at all."

Nevertheless Sir Richard said the government had "certainly shown itself to be over-secretive in the handling of

documents" - a reference to last year's Matrix Churchill trial in which the government had tried to keep classified documents from defence counsel.

"All the documents which have come to us have various differing degrees of confidentiality or secrecy, according to government criteria. I do not regard myself bound by any of these criteria. I have said that to government and I think they accept that position."

Sir Richard rejected criticism of the cost of his inquiry - "a good deal cheaper than a court case" - and dismissed suggestions that it involved time-wasting for civil servants: the nature of the inquiry "inevitably involves the time and co-operation" of Whitehall.

Sir Richard said: "The reason the inquiry was set up in the first place was because of a serious degree of public disquiet over what had been happening in government in connection with arms to Iraq. If the inquiry is going to serve its proper function, I think it is necessary that the nettle is grasped and that the maximum part is held in public."

He added: "If you are going to have an inquiry, you had better have a thorough one and put up with the price that has to be paid for that thoroughness."

Sir Richard revealed that he had asked for but not yet received additional documents - believed to include CIA material - from the Gonzalez congressional banking committee in the United States. The committee has been looking at the financing of an alleged covert international Iraqi procurement network in the 1980s.

Britain's relations with the US government have been mentioned in evidence to the inquiry although Sir Richard said that the British documents he had seen so far did not suggest that the US may have influenced the UK government's exports policy towards Iraq.

The judge's terms of reference require him to consider whether the government was trying to sell arms to Iraq - which it clearly was - but whether it was doing it in breach of the law and its own declared guidelines.

Ending of car prefix system urged

By John Griffiths

MOTOR industry analysts believe up to 30,000 cars will be registered in August, the fourth-highest volume for a single month in the industry's history.

But nearly two thirds of car dealers want to discontinue the yearly registration prefix - L this year - which causes the sales bulge, a survey by Automotive Management, a motor industry management publication, and Esso, the oil group, has found.

The prefix system was criticised yesterday by Professor Garel Rhys, who holds the Society of Motor Manufacturers and Traders chair in motor industry economics at Cardiff Business School, and is industry adviser to the Commons trade and industry committee.

Prof Rhys warned that the system conflicted with the "lean" manufacturing and distribution practices which the industry needed to remain competitive, in that it required manufacturers and dealers to build up stocks in advance of August 1, the day the registration prefix changes.

He said: "The only party now benefiting from the system are Continental manufacturers, for whom the UK August bulge is a godsend when demand in their own markets has gone seasonally flat."

The police favour the prefix system, saying it helps witnesses remember cars used in crime.

Nearly 700 dealers took part in the survey, which found that 62 per cent want to abandon the system and 24 per cent favour it.

The Retail Motor Industry Federation, which represents most dealers, is critical of the system. The survey did not consider possible alternatives.

The August "bulge" - which reached a high point of 500,000 in 1989 - has sometimes threatened to overwhelm the trade. A government inquiry into the prefix system towards the end of the 1980s was abandoned when changes could not be agreed.

The yearly identifier letter should be abandoned, Prof Rhys said, allowing the market to readjust to seasonal peaks.

He added: "If August goes as expected, it will mean that 23 per cent of the year's sales will have been made in one month. Even the Japanese could not run an inventory-less system with that kind of distortion."

'The area the judge has been probing is quite absurd'

By Jimmy Burns and Edward Mortimer

WHITEHALL insiders are expressing unease about Sir Richard Scott's "grand inquisitor" role and the way he is conducting his inquiry.

Officials at the Foreign Office - subjected to particular scrutiny in recent public hearings - say they are "relaxed" about the inquiry's potential political impact, and express the hope that some of its recommendations may lead to improvements in the efficiency of the government machinery.

But they say that in his questioning of witnesses the judge has demonstrated a lack of administrative experience and appreciation of the complexity of Whitehall.

One former member of Baroness Thatcher's government said this week: "The kind of area the judge has been probing is quite absurd. There are meetings every week at the Department of Trade and Industry between officials and companies wanting to sell arms with the Foreign Office waiting in the wings. The companies win a few, they lose a few. It's nothing."

"I've been involved in keeping things from the press but I regard that as a public service, as a patriotic duty. If we had to explain ourselves every time we made a foreign-policy decision there wouldn't be any government."

Officials say the demands on government departments to produce documentary evidence are "vastly expensive" and waste time which could be used on matters of policy.

Whitehall departments are having to devote one and sometimes two officials to dealing with the judge's

requests on a full-time basis. "This is not what we are here for," said one Whitehall insider.

Another widely shared complaint is that the line of questioning by the judge and his team does not appear to take into account the political priorities of the mid 1980s, as opposed to those that prevailed in the aftermath of Iraq's seizure of Kuwait and the ensuing war.

"At the time we were trying to do our best to sell arms," recalled one official. "There were rumours that Kurdish villages were being destroyed by the Iraqis, but these

were dismissed by our embassy in Baghdad at the time."

One former aide to Lady Thatcher said the former prime minister, who will give evidence later in the year, was "unrepentant" about her government's conduct of arms policy during the 1980s and was preparing a vigorous defence on commercial and pragmatic diplomatic grounds.

"What we were doing was nothing compared to what the French and the Germans were doing," he said, adding that in the tortured world of Middle East politics, policy was hav-

ing to be constantly fine-tuned to deal with changing circumstances.

Other foreign observers remember that in September 1983, Sir Geoffrey (now Lord) Howe, Lady Thatcher's foreign secretary, said that the evidence of chemical weapons being used by the Iraqis against Kurdish civilians was "compelling".

The judge's terms of reference require him to consider whether the government was trying to sell arms to Iraq - which it clearly was - but whether it was doing it in breach of the law and its own declared guidelines.

Court to review warehouse finding

By Neil Buckley

THE COURT of Appeal yesterday allowed the UK's three biggest supermarket chains to continue their attempt to block planning permission for a US-style warehouse club - which would sell goods ranging from baked beans to car tyres - at Thurrock, Essex.

Sainsbury, Safeway and Tesco appealed after the High Court rejected their application for a judicial review of Thurrock Borough Council's granting of planning permission to Costco, the US warehouse club operator. The High Court must now review the planning consent in early autumn.

Costco said it had spent "several million pounds" on its site next to the Lakeside shopping centre and the warehouse was less than four months from completion.

The superstore chains are contesting Thurrock's decision to grant general use approval for Costco's scheme, rather than classify it for retail use. Thurrock says it believed Costco's business plan set it apart from conventional retailers, and secured a legally-binding agreement from Costco that it would not depart from that plan.

Warehouse clubs sell goods at bargain prices to members who pay an annual fee. Costco says they do not fit

into any existing UK planning category.

But Mr John Littman, partner at planning consultants Rapleys, which is advising the three superstore chains, said the clubs must be considered as retailers.

"It is essential that warehouse clubs are subject to the same planning controls as other major retailers if the planning system is to operate consistently and effectively in the public interest."

Since the High Court hearing in June the Department of the Environment has published a planning policy guidance note which says that warehouse clubs should be considered retailers for planning purposes.

But Thurrock said yesterday it was "very happy" with its decision. "We are quite confident the High Court will support our original judgment, because it was based on very sound reasoning," the council said.

Just how seriously the retailers are taking the matter is demonstrated by their unprecedented decision to launch joint legal action. They have appointed a public relations agency to handle the issue.

Mr Paul Moulton, managing director of Costco, said he had "not been in the UK long enough to judge whether the big three are typically this altruistic in their protection of the planning laws. It seems suspicious to me".

Strength of retail recovery doubted

By Neil Buckley

THE RECOVERY in consumer confidence and retail sales may be weaker than suggested by government statistics, according to a survey carried out by NOP for Verdict, the retail market research group.

Each month NOP asks 2,000 adults throughout the UK whether they are seriously considering purchasing nine items - ranging from £100-worth of clothes to a house or flat - in the next six months. It adds the percentage of positive responses in each category together to form a purchasing intentions index.

Verdict's index for July is 112, unchanged from June. The figures for the last two months are the lowest this year - after the index reached 126 in March - and are only slightly above the 110 recorded in July last year.

Verdict said: "These data are forward-looking, so that one cannot expect the figures to correlate precisely with current retail sales. But since we began the series these data have proved to be an excellent barometer of trends, and we remain convinced that official data are running seriously ahead of reality."

Verdict said it remained "agnostic" about official statistics showing an inflation-adjusted increase in retail sales of almost 4 per cent year-on-year.

For this increase to be true, it said, retail multiples would have to be experiencing growth of about 6 per cent and independent retailers about 3 per cent.

The group said: "Such levels of growth are not being achieved by the multiples with whom we are in touch."

Its own analysis suggests year-on-year growth across all sectors is about 2 per cent.

Tribunal ruling excludes pensions from EC directive

By John Wilmsham, Public Policy Editor

A TEST case at the Employment Appeal Tribunal has established that pensions are not covered by the European Community directive that preserves the rights of employees when businesses change hands or work is contracted out.

The case was over the pension rights of Mr Ernest Warren, whose company changed hands in circumstances that were covered by the EC's Acquired Rights Directive 1977. The tribunal ruled that the new owner was not required to offer the same pension provisions to employees which they had enjoyed under their previous owner.

The judgment was described as "decisive" by Ms Melanie Tetter, a partner of City solicitors Norton Rose.

She said: "The tribunal backs the government view that the directive protects only the accumulated rights of employees up to the time an undertaking is transferred."

This will come as a relief to contractors bidding for public-sector contracts, since pension provisions are often much more generous in the public

sector. Last night Mr John Hall, director-general of the Cleaning and Support Services Association, said the judgment was "very useful".

He said: "It clears the air on one of the major issues hanging over the government's contracting-out programme."

However, a second test case completed yesterday at the tribunal confirmed that the directive can apply to contracting-out of public-sector services.

In a judgment over a refuse collection contract in Eastbourne, East Sussex, the tribunal said that the pay and conditions of staff whose jobs are contracted out could be covered by the Transfer of Undertaking (Protection of Employment) regulations 1981, which implemented the directive in UK law.

This appears to confirm advice given by the government's law officers in the spring that recent cases in the European Court of Justice have widened the scope of the TUPE regulations to compulsory competitive tendering.

Where the regulations apply, they protect the jobs and conditions of employment of the workforce when their jobs are transferred to another employer.

However, the Eastbourne judgement was immediately greeted by Mr Jack Dromey of the TGWU general union as "a historic verdict".

Mr Dromey invited the government to offer compensation to those who have lost their jobs or pay as a result of contracting out.

Otherwise they would face thousands of claims for compensation for not properly implementing EC legislation.

Accountants face growing litigation

By Richard Lapper

THE BIG accountancy firms face mounting litigation from creditors and investors seeking to recover losses from insolvent or troubled companies, Lafferty, the business information group, says.

Lafferty says in a report to be published next week that the "threat of litigation has taken on new dimensions" in the US, with accountants held responsible for much more than "obvious malpractice". A sharp fall in share prices is sometimes enough to trigger a lawsuit against auditors.

In the 1992 financial year spending on litigation of the six leading US accountancy firms amounted to 12 per cent of US accounting and auditing revenues, compared with 9 per cent in 1991.

Lafferty says 1992 "will likely go down as the worst year ever for litigation against accountants".

Statistics in the report show that worldwide there have been 12 settlements involving payouts of \$20m (£13.4m) or more. Four of the cases related to a \$400m settlement by Ernst & Young when it was sued by three US government bodies for its role in the failure of US savings and loans institutions.

World's biggest awards against accountants and auditors 1992-93

Accountant against whom award made	Plaintiff	Accountant's client	Amount of award or settlement	Country
1 Ernst & Young	Federal Deposit Insurance Corporation	United American Bank of Tennessee and others	\$112m	US
2 Coopers & Lybrand	Bankruptcy trustees	Minscribe	est \$95m	US
3 KPMG and others	Investors	Wedtech	\$77.5m	US
4 Ernst & Young	Investors	American Continental Corp	\$63m	US
5 Coopers & Lybrand	Bondholders	Minscribe	\$45-\$30m	US
6 Ernst & Young	Resolution Trust Corp	Bezar Savings	\$43.7m	US
7 Peat Marwick and others	Shareholders/creditors	Crazy Eddie Inc	\$42m	US
8 Ernst & Young	Resolution Trust Corp	American Pioneer Sav Bank	\$33.92m	US
9 Arthur Andersen	Investors	Lincoln Savings & Loan	\$22m-\$30m	US
10 Pannell Kerr McGillevary	Teachers' Housing & Investment Co-op	Teachers' Housing	C\$32m	Can
11 Ernst & Young	FDIC	First Rep Bank Corp Texas	\$24m	US
12 Ernst & Young	Duke Group	Duke Group	est \$535m	Aust

Notes: * Part of \$400m settlement between Ernst & Young and US federal government over failures of US savings and loans institutions.

** Part of \$140-\$145m settlements by Coopers and Lybrand in Minscribe case

Source: Lafferty Publications

Ten of these cases were in the US but increasingly the profession is under attack elsewhere in the world.

Three of the five lawsuits which sought to recover losses of more than \$1m have been launched outside the US. These include a claim for \$80m in damages by the liquidators of Bank of Credit and Commerce International against Price Waterhouse and Ernst & Young.

The report says that accountancy firms in at least 50 countries have experienced one or more claims. Firms in at least 20 further countries may have claims pending.

Although the level of liability in continental European countries is low, the trend there is rising faster than in any other part of the world.

Last year, for example, French accountancy firms faced some 130 cases, twice

as many as in 1991.

The report says that if all proposed legislation and regulation in the European Community is adopted, accountants practising in member states will be subjected to the harshest rules anywhere that govern claims and liability.

The Litigation Nightmare - a threat to public accounting firms worldwide. Lafferty Publications, 10A Tower, Pearse Street, Dublin 2, E549.

Business jet users accuse BAA of unfair practice

By Daniel Green

A LOBBY group backed by some of Britain's largest companies has lodged a complaint with the European Commission against BAA, alleging anti-competitive practices.

It accuses BAA, which operates London's largest airports, of unfairly excluding some business jets so that more commercial aircraft on scheduled flights can use the overcrowded runways.

Some companies using business aircraft have contacted the office of Mr Richard Needham, the trade minister, to argue that business aircraft should continue to have free access to Heathrow.

The export manager of one large manufacturing company said: "This is a serious issue. It could be the beginning of a trend to exclude small aircraft from major airports."

BAA acknowledged that it wants to give more landing

slots to bigger aircraft and had cancelled some of the peak-time slots reserved for business aircraft. It said that a small aircraft's slot is twice as long as a normal slot because it has to wait until the turbulence caused by a preceding large aircraft has settled down.

Private aircraft account for 4 per cent of the traffic at Heathrow.

The lobby group intends to take BAA to the European Court in Luxembourg.

Bail sureties for Nadir called in

argument was "the most interesting, but also the weakest".

Because Title V was an inter-governmental agreement it was possible for the court simply to accept that since no question of domestic law was involved it had no jurisdiction to consider the matter.

But assuming the issue was justiciable, even if Title V was read "with an eye most favourable to Mr Pan-nick's argument, it cannot be regarded as a transfer of prerogative powers," he said.

Title V did not entail an abandonment or transfer of prerogative powers, but an exercise of those powers, he added. It should be read in the same light as the UN and NATO charters.

The loss review says that "the risks assumed resulted in syndicate #21 having a substantial exposure to potential adverse developments on old years of account in respect of much older and larger syndicates, an effective concentration of risk into a new and small syndicate".

Mr Merrett said the loss review should have looked more specifically into the circumstances surrounding the deterioration of results in 1980, when claims from environmental pollution accounted for almost 90 per cent of a cash call for 55.6m.

Tobacco warnings

HEALTH WARNINGS will be extended from cigarettes to packs of cigars, pipe and hand-rolling tobacco and snuff from the start of next year under government regulations.

FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL
Tel: 071-873 3000 Telex: 922186 Fax: 071-407 5700
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Pragmatism
v dogmatism

BATTERED AND drowsy, the European exchange rate mechanism looks to be on its last legs. Miraculous recoveries have been known before. But unless Europe's finance ministers are able to hatch a plan over this weekend which can promise to deliver a sizeable cut in French interest rates very soon, the prospects for fixed exchange rates surviving in Europe, other than among a small core of Germany's north European partners, look slim. What is needed is a pragmatic and face-saving escape route for the French government which can deliver lower rates without requiring the abandonment of its European ambitions and commitments. It is in Bonn, more than Frankfurt and even Paris, that the hard thinking must take place.

Germany's political leaders, rudely awakened in their holiday retreats, must put past errors and disagreements behind them. Yes, Bundesbank council members can rightly complain that it is the German government's budget profligacy that has required them to keep interest rates so high. Yes, German government ministers can mutter that France should not have resisted an upward realignment of the D-Mark when it still made sense.

Nor are French remonstrations about the Bundesbank's lamentable performance over the past week likely to help in the search for a route out of the current crisis. Reasonable people can disagree about whether recession-tormented Germany really does face a short-term inflationary threat. But it was perfectly within the Bundesbank council's rights to resist a cut in its discount rate if it truly believed that such a cut would run counter to its declared aim of securing medium-term price stability in Germany.

But the French can complain about the Bundesbank's failure to quell the widespread rumour before Thursday's council meeting that a discount rate cut was imminent. Indeed, by cutting the repo rate almost to the discount rate floor on Wednesday, the bank actively led those rumours.

Ruled out

Still, the substance, not the style, of the Bundesbank's decision was what set off yesterday's turmoil on the foreign exchanges. For the Bundesbank has effectively ruled out a cut in interest rates in the ERM, as currently constituted for some weeks. This realisation was enough to undermine confidence in the ability of Belgium, Denmark, and most important, France to live with the high real interest rates that Germany's fiscal difficulties are transmitting across Europe. Intervention, on an unprecedented scale in

Europe's monetary history, could not keep the French franc from falling out of its ERM bands.

The future of Franco-German monetary relations has thus reached a crucial juncture. The time has now passed when public statements of commitment to current parties from the French ministers can do much good. Regardless of the hopes and wishes of the French government, the markets do not now appear to believe that France can maintain interest rates at their current levels. The gap between the market rates and prime rates is too large, the banking system too troubled and the erosion of public support for the franc too great. In the face of rising unemployment, too rapid. Any effort to sweat next week out will probably end in failure.

Economic reality

Nor is a realignment, or modest widening of bands, likely to buy anything more than a fleeting breathing space. France, Belgium and Denmark are not burdened by uncompetitive exchange rates, but by much higher interest rates than their excellent inflation performances require. A realignment cannot work unless it persuades the Bundesbank to cut German interest rates. But Germany's inflationary pressures are in the service sector, where the impact of a higher exchange rate is negligible. In the private sector, where a stronger D-Mark would bite, deflation is currently the problem.

The only other alternative, short of a rapid and politically improbable move to monetary union, is temporarily to sever the Franco-German monetary link. France can no longer afford to ignore the economic reality that Germany's particular problems demand a tighter monetary policy than France can sustain.

What is needed is a way to break the link in a manner consistent with the French government's political pledges: to stay in the ERM and to honour the spirit of the Maastricht treaty. The solution is for the German government to propose what now seems economically rational, if politically very difficult: the temporary departure of the D-Mark from the ERM. The remaining ERM member countries should then announce an immediate 2 percentage point cut in interest rates, perhaps accompanied by a move to narrower bands.

France may blanch at such an outcome. But, by choosing pragmatism, both Paris and Bonn could signal a partial but honourable retreat from their joint monetary aspirations. Trying to soldier on looks increasingly likely to deliver an inferior outcome, and in a much more ignominious fashion.

A bloody nose in Newbury. A kick in the teeth in Christchurch. Mr John Major cannot take much more of it before he crashes to the canvas.

After the loss of Newbury in May, the prime minister sacked his chancellor. The ghost of Mr Norman Lamont lives on. If there was a single factor which ensured the government would be humiliated in Christchurch, it was the decision in his last Budget to impose VAT on domestic fuel.

But the Christchurch result said much more about Mr Major's administration - and his premiership. The government and its leader have fallen out with their own people. The footsoldiers of Toryism in southern England are seething. Unless he wins them back, the prime minister is doomed.

The by-election result was as awful as the government's worst fears. By the final days of the campaign, ministers had given up any hope of holding what only a year ago was their high safest seat.

In the event, the 16,427 majority secured by Mrs Diana Maddock, the less-than-inspiring Liberal Democrat candidate, broke all postwar records. No Conservative government since 1945 has seen a 35 per cent swing against it. Nor has any previous administration witnessed such a dramatic fall in its own vote.

The traditional refuge after Tory by-election disasters - blaming the local activists' dud candidate - is not on offer this week. Mr Rob Hayward, an experienced former MP, made his mistakes. But those on the ground judged that, on balance, he won rather than lost votes.

Mr Major's reaction was predictable. Christchurch marked the end of a wretched year for his government. But it was backward-looking. The voters were responding to the economic recession and to the disarray caused by the Tory civil war over Europe.

He could draw comfort from Labour's dismal performance. Mr John Smith may claim that his party's lost deposit in Christchurch was the inevitable result of tactical voting. But the outcome - coupled with a similar rebuff in Newbury - can hardly enhance Labour's pretension to be a party which can again win seats across the south of England. Mr Smith, embroiled in his own, damaging, internal dispute with the trade unions, cannot rely on the government's mistakes to deliver votes to his party.

The long summer parliamentary recess offers Mr Major a respite. The Conservative party at Westminster has been denied its opportunity to panic. The turmoil in European

currency markets has raised a question mark over prospects for the economy, but the odds are that the British upturn will continue to take hold. Another interest rate cut might sweeten the October party conference. Maastricht is history.

Wise souls on the Tory backbenches believe time will prove the commentators wrong: those who follow events at Westminster have made the classic mistake of projecting into the future the mood of the recent past.

Mr John Biffen, the eloquent

Handbagged by
grey power

Can Major rebound after the humiliation of Christchurch, asks Philip Stephens



elder statesman of the liberal Tory right, left for his summer break this week predicting the "black misery" of Christchurch would be followed by much calmer autumn waters. As economic recovery began to be felt by the voters, Mr Major would have another chance to get to grips with his domestic policy agenda.

But drawing lines under past disasters has become quite a habit for this government - under its forced exit from the exchange rate mechanism, under coal industry closures, under turmoil in the

schools, under Norman Lamont. The lines rarely seem to last. For all the brave ministerial speeches yesterday, the cabinet looks tired and purposeless. Mr Major does not look prime ministerial; the voters judge him weak. He has still to articulate a convincing political agenda.

Mr Michael Heseltine's energy is sorely missed. Mr John Patten has been sidelined by a stress-related stomach illness. Others around the cabinet table are preoccupied with survival, not buzzing with ideas.

Mr Kenneth Clarke is an exception. But Christchurch has narrowed greatly the options for what must be a tough November Budget. Senior Whitehall officials predict he will resist the pressure to delay the introduction of VAT on fuel. It was not his policy but he has defended it vigorously.

But the voters have delivered a warning that they will not tolerate further tax or spending changes which fall heavily on the government's supporters. Grey power has come of age in suburban England.

The chancellor might as well rule out now any further extension of VAT beyond, perhaps, to newspapers. There will have to be generous compensation to offset the pain of higher fuel costs. Every proposed saving in welfare benefits and health service provision will now have to be weighed against the reaction of the once-loyal battalions of home counties pensioners now marching under Mr Paddy Ashdown's banner.

The Liberal Democrat leader was wise yesterday not to draw extravagant conclusions from the party's recent undoubted successes. There was too much talk in the 1980s of "breaking the mould". Mr Ashdown's troops remain preoccupied with local rather than national politics. The team which Mrs Maddock will join at Westminster is hardly full of sparkling talent.

Mr Ashdown has yet to establish a coherent national strategy for his party but he is capitalising - like Mr Ross Perot in the US last year - on the mood of anti-politics which has swept through the west.

Taken together, Newbury, the county council elections on the same day, and Christchurch, have seen the Liberal Democrats advance steadily eastwards from their West Country strongholds. The party is beginning to entrench in areas which the Conservatives have long taken for granted.

Up to two dozen Tory MPs are now looking anxiously over their shoulders at the threat to their seats come the general election. They are warning the prime minister that it will take more than a gentle economic recovery to erase the bitterness caused by the "betrayals" of the past year. They are reminding him that they represent the difference between Conservative and Labour government. If he does not pay heed, they will join the disenchanted and dispossessed on the Tory backbenches who have already given up on Mr Major's leadership.

Fuel for thought on VAT

A Tory party memo has found its way to John Willman

stage increase. The same newspapers say that the deficit would be made up by extending VAT to other zero-rated items such as food and children's clothes. I assume this bizarre suggestion was designed to frighten backbenchers away from scrapping VAT on domestic fuel.

If you are going ahead with VAT on domestic fuel, quick action is needed to substantiate your predecessor's pledge to "help people on low incomes". There is good news and bad news, chancellor.

The good news is that you can help most people on low incomes - though it will swallow up about a third of the additional rev-

enue from the rise in VAT. The bad news is that you can't help everybody. Worse, you can only compensate people for average rises in fuel bills. People with higher-than-average bills will get less than they need and will still feel aggrieved. People who get more than they need are unlikely to draw attention to this.

I understand that Peter Lilley [social security secretary] is anxious to announce a package at the party conference in October. Here are some points to think about:

For higher fuel prices can be left to the annual uprating of social security benefits in line with the retail price index. First, uprating is retroactive - so pensioners, the disabled and low-income families would get a benefits increase only after a year of paying higher fuel bills. Second, most people know the poorest households spend a higher-than-average proportion of their income on keeping warm and need more than average compensation.

● Paying an extra 80p a week to people on means-tested benefits from next April would compensate them for VAT at 8 per cent on the average fuel bill of the poorest 20

per cent of households, according to our Social Security Advisory Committee. That means finding about £360m next year and £720m a year from 1995 when the second-stage increase is imposed. This looks cheap at the price.

● We need some way of dealing with the criticism that the fuel price increases will also hit many pensioners just above the income level for means-tested benefits. I suggest we put a decent sum - say £100m - into a scheme to provide them with home insulation grants. This would also bolster our green justification of the VAT increase.

Politically, the cost of this package, more than £360m when the full VAT increase is imposed, is a small price to pay. You could always cover the cost by imposing VAT on newspapers which would raise more than £1bn and teach the treacherous tabloids a lesson.

MAN IN THE NEWS: Dan Rostenkowski

Fixer who may
come unstuck

It is the best of times and the worst of times for Mr Dan Rostenkowski.

The burly Chicago Democrat has been in his element, bullying and cajoling his congressional colleagues towards a deal on President Bill Clinton's budget. As chairman of the Ways and Means committee of the House of Representatives, Mr Rostenkowski is, as always, central to tax negotiations.

But he remains the target of a two-year criminal investigation by federal prosecutors who have requisitioned a dozen years of his cheques, bills and campaign documents, and subpoenaed his staff, his friends and his daughters.

Last week, Mr Robert Rota, the former House of Representatives postmaster, pleaded guilty to three misdemeanour charges, including aiding "Congressman A" to embezzle at least \$21,300 between 1985 and 1991 by giving him cash in exchange for office expense vouchers made out for stamp purchases.

The amounts and dates of the vouchers filed with the court match those listed in separate House records for Mr Rostenkowski.

Mr Rostenkowski last week reaffirmed that he was "innocent of any wrongdoing", and no charges of any kind have been filed against him. But Mr Rota's plea has made many in Mr Rostenkowski's two home cities of Washington and Chicago conclude that it is only a matter of time before he faces indictment, and with it, under Democratic Party rules, removal from the Ways and Means chairmanship.

His critics have often dismissed him as a typical Chicago machine politician, and indeed, like his mentor, Mayor Richard Daley, who brought the system of patronage

and political favours to perfection in his rule over the city from 1955 until his death in 1976, he has always known the importance of getting his supporters' streets swept and finding jobs for their nephews.

In his 20s, when trying to make it as a professional baseball player, he trimmed his name to Rosta, but regained the -kowski when he entered politics, aged 24, following in his father's footsteps as a member of the Illinois state legislature.

He still lives in the house where he was born in a Polish-American community on Chicago's north-west side, and keeps only a sparse, one-bedroom flat in Washington. His wife, LaVerne, does not come to Washington.

He still delivers for Chicago, winning the city regular federal money for roads, transit systems and public housing.

Mr Rostenkowski is also defiantly old school in his way of doing business, which involves a mastery of the art of compromise, backed up by endless loyalty and considerable courage, meaning what he says.

He is unmatched in his ability to read the mood of the House, to sense the exact combination of concessions and bullying that will be needed to strike a deal.

His legislative monument is probably the 1981 tax reform, which lowered income tax rates in exchange for the elimination of a host of deductions and loopholes.

The measure never commanded much popular support, but Mr Rostenkowski manoeuvred it through a reluctant House, making concessions only to members who would promise to back the bill.

It finally put paid to Mr Rostenkowski's earlier reputation for political laziness for being quick to shoot down a bill that he judged



would not pass the House, but slower to do the hard work needed to get tough measures into law.

As chairman he demands the same from members of his Ways and Means committee, which has jurisdiction over almost all the revenue legislation and almost half of the spending that passes through Congress.

He has little patience for the Senate, whose convoluted procedural rules he finds impede the constructive work of legislation, and none at all for senators who retire in frustration.

"You don't quit. You fix the machinery," he says.

He has no time at all for members of Congress who condone public criticism of their institution, reserving particular scorn for those who seek to curb their own pay.

"Sure there are perquisites that come with the job. But you know as well as I do that perks can't make up for the birthdays, ballgames, hol-

idays and meals that we miss," he says.

Making no secret of his belief that he is worth a great deal more than his congressional salary of \$136,600 a year, Mr Rostenkowski lives a lifestyle that systematically exploits these perks.

Travel, often to golfing events, is paid for by business and lobbying groups; and meals by Mr Rostenkowski's campaign fund or his political action committee, which raises money to support other candidates. Blurred lines between political and social activities are not unusual in Congress.

But few can match the chairman of Ways and Means in his ability to reap the rewards of office.

Indeed, Mr Rostenkowski's skill at stretching his perks to the limit is the reason why many colleagues find it hard to believe that he would have gone beyond those limits. Why would he embezzle small change from the House post office when he could legally have pocketed more than \$1m from his campaign fund if he had retired last year, under a law which left long-serving members of Congress subject to older, looser campaign finance rules.

The question hangs unspoken over the conference room in which House negotiators, led by Mr Rostenkowski, argue with their Senate counterparts over a compromise budget bill and complaining about the "do-nothing" Senate's inability to pass anything with even the slightest grain of controversy.

For all the reformism of the last 20 years, in which clean politics has come to outweigh good policy with US public opinion, it has often seemed over the last week of negotiations that Mr Rostenkowski's old school arm-twisting skills were as much in demand as ever.

The budget agreed by the Democrats yesterday, however, marks a victory for the "do-nothing" Senate and a failure for Mr Rostenkowski. It may also sound the knell for a politician from another era.

George Graham

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Robert Horton, former boss of BP, is changing his abrasive image for the chairmanship of Railtrack, says Richard Tomkins

Hatchet honed to a softer point



Robert Horton: 'I think my management style is actually highly consultative - I really do delegate'

If there is one thing worse than being spoken of unkindly, it is not being spoken of at all. Anyone who doubts it should consider the case of Robert Horton, the man who will take charge of Britain's 10,000-mile network of railway tracks next April when rail privatisation starts coming into effect.

Barely a year ago, in one of the most sensational palace coups in recent UK corporate history, Mr Horton was ousted from his position as chairman and chief executive of British Petroleum with accusations of abrasiveness and megalomania ringing in his ears.

Now, as chairman of Railtrack, the government-owned company that will take over the tracks from British Rail next year, he is preparing to re-enter the public arena in a job that will not only thrust him more than ever into prominence, but threatens to turn him into an object of vilification if he fulfils people's worst fears about what he might do.

Mr Horton, 53, is a government appointee to the chairmanship of Railtrack. That is bad enough for members of the rail lobby, since they mistrust ministers' commitment to the railways. But far more disturbing is Mr Horton's reputation as an axe man ("Horton the Hatchet", as the sobriquet has it), for it recalls the swinging cuts to the railway system instigated by another Conservative government appointee in the 1980s - Dr Richard (later Baron) Beeching, then chairman of the British Railways Board.

Mr Horton's reputation for toughness was built up during a 35-year climb to the top at BP. His record was that of an aggressive cost-cutter, first in the tanker and chemical divisions and then as head of BP's North American operations.

Mr Horton's determination and boundless ambition went down well in the US, where they satisfied notions of what captains of industry should be. But his American-style management methods were less well received in the UK when Mr Horton became chairman and chief executive in 1990.

He made it his mission to shake up a corporate culture stultified by bureaucracy. Head office committees were abolished, layers of management

were swept away, and thousands of jobs went. Responsibility was delegated to unit managers, who were told that they would "own" problems and be "empowered" to deal with them.

Unfortunately the changes coincided with adverse economic conditions which caused a sharp fall in profits. Worse, Mr Horton generated personal antagonism with his reputation for arrogance. "Because I am blessed by my good brain, I tend to get to the right answer rather quicker and more often than most people," he said in a notorious interview with *Forbes*, the American business magazine.

In June last year, his fellow directors decided they could no longer work with him and cast him out. But Mr Horton was not to stay out of the limelight for long. As chairman of Railtrack, he may have exchanged the £787,000 he earned in his last year at BP for a more modest annual salary of £120,000. He may have left BP's palatial City headquarters for a dowdy, down-at-heel office block opposite Russell Square tube station, but he is back.

He is also at pains to soften the harder edges of his image. Whatever else he may have brought into Railtrack to do, he says, it is not to take an axe to the railway network. "It is very different from the situation I found in the oil industry, because BP had diversified into a lot of businesses that were not core, such as minerals and animal feed," he says.

"It seemed to me that an oil company ought to stick to being an oil and petrochemicals company. But railways are quite different, railways are a core activity in themselves, and I have absolutely no intention of being a Dr Beeching mark two."

Rather, he says, his goals are

to improve the quality of the existing infrastructure and to increase capacity by installing better signalling systems and removing bottlenecks. "I believe in the efficiency of public transport, and far from wanting to reduce what is available, I want railways to become a more popular and more used mode of travel."

If this sounds slightly suspect coming from someone whose previous business was making petrol for cars, Mr Horton is ready to acknowledge it. "Obviously with my background, I start from the point of view that the car is a great liberator for people who, 40 years ago, would not have travelled beyond the town they lived in," he says.

"But we are faced with a situation in which this cannot continue in an unfettered way

because we live in a little island with a lot of people and a lot of beautiful countryside, and we don't want to see it turned into a concrete jungle." The implication of that, says Mr Horton, is that motorists will sooner or later have to start paying more for the use of the roads, so encouraging a switch to rail for goods and passenger transport.

So is Mr Horton the railwayman's friend? It would seem so. One difficulty he cannot gloss over, however, is how he will fund the track improvements he wants at a time when the prospects of getting more money out of the government are close to zero.

An easy solution would be to raise the money from the train operators by inflicting high charges for the use of the tracks. But that is not Mr Hor-

ton's plan - nor, presumably, the government's - for it would mean either large and politically unacceptable fare increases or higher state subsidies for the train operators.

Instead, the money will have to come from efficiency gains within Railtrack's operations. And this, above all, is why Horton the Hatchet has been drafted into the railways - to take an axe to Railtrack's costs, so easing fears among would-be train operators that their track charges will be dictated by a lazy, inefficient monopoly.

Railtrack will be a lean machine, says Mr Horton. Its headquarters will employ about 150 people, half from BR and half from the private sector. The company will also take on BR's signalling and train control staff, taking

employee numbers to 10,000-12,000. But everything else - track maintenance, signalling renewal, engineering work and the rest - will be contracted out, with BR's existing staff competing with the private sector for the work.

Job losses are potentially large: BR employs 40,000 people on track maintenance and engineering. But Mr Horton is politician enough to duck the question of exactly how many will go: "I am not going to say - that's just asking for trouble."

The other big change will be the creation of 10 geographical zones to run Railtrack's day-to-day operations. Managers will be given a high degree of devolved power to run their businesses, Mr Horton says. Headquarters will set quarterly targets and zonal managers will be left to achieve them, with financial rewards geared to the degree of success.

If this begins to sound like the "empowerment" which Mr Horton so strongly advocated in the past, he is not about to disagree. "I have not fallen in love with committees since I left BP," he says. Nor does it sound as though he is planning any drastic changes in his management style.

If you lead from the front and take difficult decisions, people will say you are arrogant and abrasive, which I don't think I am," he says.

"I think my management style is actually highly consultative - I really do delegate. But I believe in active leadership and not ducking leadership, and in a complicated business there is limited scope for endless debate."

Even so, the bruising circumstances of Mr Horton's exit from BP have left some scars. He speaks bitterly of the events leading up to his departure: "I had over 30 very happy and stimulating years in the oil industry. It was hardly my fault that the deepest recession for 30 years was under way."

Is this then a new, softer, gentler Mr Horton taking charge of Britain's railway infrastructure? "Possibly," he says. "Possibly, I am very conscious of the fact that I have a lot of learning left to do. Mind you, so has everyone. We are at a new dawn now."

Fading sound of music

Judy Dempsey on why there may be a requiem for one of the world's finest piano makers

There is hardly a musician who does not know about Bechstein, one of the world's finest pianos, whose keys were played by Richard Wagner and Franz Liszt. There is hardly a Berliner who would not demand its rescue as bankruptcy now hangs over the 140-year-old company.

Bechstein has had an uphill struggle since it was bought by Mr Karl Schulze, regarded as a master piano maker, from the US-based Baldwin keyboard manufacturers in 1985. Mr Schulze had only one aim: to restore the international reputation of this grand concert piano.

Baldwin had acquired the renowned established family business in the 1960s, and afterwards, the quality of the piano was compromised.

Experts say its infrequent presence on the concert platform seemed to confirm this perception. Before the second world war, Bechstein and Steinway competed with each other to grace the world's concert halls. Today, about 90 per cent of them are using Steinway, followed by the Vienna-based Bösendorfer.

"Baldwin is a good American firm. It thought it could sell more pianos by capitalising on the name. But each piano has to be crafted, individually made, and cared for," said Mr Roger Willson, manager of Whelpdale, Maxwall and Codd, a piano manufacturer, and the sole importer into the UK of Bechstein.

Soon after acquiring Bechstein, Mr Schulze bought new premises in west Berlin, not far from Checkpoint Charlie, the main crossing point between east and west Berlin, and with help of 60 craftsmen, revived traditional piano-making skills. By the early 1990s, the company was making 350 concert grands and 600 uprights a year. Mr Schulze, confident about the future, decided to expand. He bought a small piano factory in Bavaria, as well as the established Zimmermann piano factory in the eastern German state of Saxony. Then things started to go wrong.

An explanation is offered by Mr Willson. "The recession hit him badly," he said. "You see, about 60 per cent of our sales of Bechstein, and Bithner, another great German piano manufacturer located in Leipzig, is sold to the older generation. With the fall in housing prices, especially in Britain, people held back. These are expensive instruments." A Bechstein grand costs between DM80,000 (£31,128) and DM100,000, and an upright between DM18,000 and DM30,000.

As a result of the recession, piano sales in the UK fell last year by 15 per cent, to between 10,000 and 12,000. Worldwide, 650,000 pianos were sold, 270,000 fewer than in 1991. The market faces growing competition from Japan, and especially South Korea and China, which have exploited the global downturn by offering low prices and somewhat inferior quality. But, when it comes to concert grands, the Japanese are up against a bias

which favours European tradition and craftsmanship.

Some German bankers say that Mr Schulze expanded at the wrong time. But another factor could be that unlike his competitors, Steinway and Bösendorfer, both of which are owned by US companies, Bechstein has no private backers. "He did it alone. It would be a shame to see Bechstein disappear," said Mr Michael Glazebrook, director of technical services at Steinway.

Because of the recession, Bechstein's bankers, Dresdner and Deutsche Genossenschaftsbank in Berlin, have been reluctant to provide loans of about DM3m to the company, which saw turnover fall by 15 per cent to DM20m last year. This year it may be even lower, at DM15m. Without financial backing from the Senate, Berlin's city government or from a consortium of bankers, Bechstein could be forced into liquidation.

The irony is that Bechstein's bankers have refused their support at a time when other great piano manufacturers, particularly those in east Germany, are slowly re-establishing their reputations. These include Bithner and Zimmermann, both based in Saxony.

Bithner was founded in 1833, and was chosen for concert performances by Felix Mendelssohn, Arthur Schnitzler, and Claudio Arrau, the latter one of the finest interpreters of Beethoven's sonatas. Ingbert Bithner, a direct descendant, managed to bring the business back into the family in 1990 from communist state control. He began to market the piano again, and opened a workshop to reconstruction second-hand instruments.

"It is difficult, but we are surviving, and we are regaining our traditional niche in the upper end of the market," said Ms Gitta Grosse, manager of Bithner's showrooms in Leipzig. "You must remember that we had no chance to compete, or gain access to high-quality parts for our piano under the old system. This has all changed," she added.

"The quality of Bithner is much better now," said Mr Willson. "It has that lovely soft tone." Zimmermann, which caters for the middle end of the market, has also regained its reputation as a manufacturer of high-quality family pianos. But its fortunes depend on the fate of Bechstein.

"If Bechstein is allowed to fail, it would be very sad. We are talking about quality, about a name, about craftsmanship, which Germany is so good at, and which people still want. The Bechstein is as famous as Berlin's coat of arms, the bear," said Mr Willson.

Steinway's Mr Glazebrook added: "Some would think we would be delighted to see the end of Bechstein because it would mean less competition. But it's not like that at all. It's about retaining the continuity of quality and tradition."

The Senate, and any prospective rescuer, will next week have to decide the price it will pay for maintaining, or neglecting, that tradition.



The Middle East abhors a diplomatic vacuum like no other part of the world. If it is not trying to resolve the worst of its problems through negotiation, then the danger is always there that it will blunder again into war.

The latest, and objectively the best hope for resolving the Arab-Israeli conflict peacefully sprang out of the war in the Gulf. Some 20 months after Iraq's forces were driven out of Kuwait, the long-festering crisis of Israel's relations with its Arab neighbours was brought to the negotiating table in Madrid. Some 21 months later, with no progress to show, the guns are again firing, civilians are dying and the pitiable sight of hundreds of thousands of refugees fills television screens.

Once again, for the third time in 15 years, it is the Lebanese people who are paying the price for the failures, ambitions and short-term political manoeuvring of the region's leaders. This week's relentless attack on the country by Israel, which has already forced at least 250,000 people from their homes, killed 120 and wounded hundreds more, serves interests far removed from those which support conciliation and compromise.

Mr Yitzhak Rabin, Israel's prime minister, clearly believes that the military operation is necessary for his government and for his country. Earlier this month, seven Israeli soldiers were killed by guerrillas in south Lebanon, in the slice of territory (about 10 per cent of the country) Israel has occupied since its two earlier ill-fated invasions of 1978 and 1982.

Then, as now, the declared aim is to rid the south of Lebanon of guerrilla forces capable of challenging the occupation and of firing rockets into the northern tip of Israel. This time, however, Israel is trying a new tactic. By deliberately driving out the popu-

A blow for compromise and conciliation

Israel's military attacks in south Lebanon have damaged Middle East peace hopes, writes Roger Matthews

ation of the south and making their towns and villages uninhabitable, Mr Rabin is hoping to create such a mass of refugees that the governments of Lebanon and Syria will be forced into taking action against the guerrillas.

Israel's prime minister has long believed, along with many of his colleagues, that force can only be answered by force. He was elected a year ago on the twin pledge of peace and security. He has not delivered peace, so the need to ensure security has become even more politically imperative. Mr Rabin may also calculate that the risks to the peace process are secondary and containable. He well knows, as do his Arab negotiating partners, that Israel is totally dominant in the region militarily. Since the collapse of the Soviet Union, those Arab countries most opposed to Israel have lost their main military supplier and most constant diplomatic supporter. The risk of a Middle East conflict spilling over into the third world war has gone.

Israel, meanwhile, has deepened the already close relationship with its most fervent champion, the US. Washington, in its turn, has declared a policy of seeking to deny Iran and Iraq, potentially the two most powerful economic and military powers in the region, the means to develop their influence. Seen from Jerusalem, it

must appear that Israel and the US have the power to dictate events in the Middle East as never before.

It is a view shared by many Arab governments. Syria, Jordan, Lebanon and the Palestinians went to Madrid and the nine subsequent rounds of negotiations in Washington because it was the only formula remaining which might, with US involvement, lead to the return of their land occupied by Israel in the 1967 war, as demanded in two UN resolutions.

They came to the table essentially as supplicants with little to offer, except the prospect of peace treaties. For governments which until recently had beaten the drum of Arab nationalism, Palestinian self-determination, and unending resistance to Israeli ambitions, it was a chastening and potentially humiliating experience. And the less they achieved, the greater would be the embarrassment of justifying their actions in front of their own populations.

By attacking Lebanon in the manner it has, Israel is seeking to strip the last remnants of their formerly hostile political clothing from them. Syria, and the Lebanese government on which it has such strong influence, are being told by the Israelis to put an end to the military activities of Hiz-

bollah, the Iranian-supported group which proclaims that it is fighting a war of national liberation in south Lebanon. Without the curbing of Hizbollah, the civilians of the south will not be allowed to return to their shattered homes, and Lebanon's attempts at reconstruction will come to naught.

But Hizbollah is more than a guerrilla movement. It also enjoys widespread support among the Shia community in Lebanon, runs an extensive social welfare programme and won eight seats in the last parliamentary elections. Lebanese ministers are well aware that the only way to reduce Hizbollah's growing influence is by raising the overall economic well-being of Lebanon, a process which Israel has now put firmly into reverse. The parallels with the Israeli-occupied West Bank and Gaza are obvious. There, too, Israel's response to the Palestinian uprising has led to greater economic hardship and an erosion of the popular support for the Palestine Liberation Organisation, which gave its blessing to the peace process, and a political boost to the radical Islamic forces, which oppose it.

For those Israelis who prefer the present situation to the alternative sought by the Arab negotiators, such developments are not unwelcome. It enables them to argue, especially in front of a US audience, that radical



Protest: A Shia Muslim demonstrates against Israeli aggression in Lebanon

Islam has now become the most potent threat not just to Israel, but also to most of the western world.

How fully the US accepts this assessment may be clearer in the next few days when Mr Warren Christopher, the secretary of state, sets out once more for the region with his prime objective of promoting peace again overshadowed by the need to limit the damage of war.

Conservation dependent on right economic focus

From Mr J. Hugh Faulkner.

Sir, Sustainable development is not conservation for its own sake, as you suggest, ("Clarifying the green agenda" July 21). It is, as the Brundtland Commission says, "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" - surely a goal we all share.

To achieve it, we must use all our resources - finite or not - more efficiently, and less wastefully. To encourage this means costing those resources realistically - including environmental costs - paying those costs and including them in both national and corporate accounts. Economic reforms are therefore the key to more efficient use of resources.

As you say, it is a time for priorities. But you overlook a main priority: the urgency for governments to step up their efforts to internalise environmental costs - specifically through applying economic instruments on a wider scale, and at a faster pace. They undertook to do this at Rio.

Internalising environmental costs will benefit:

a) business, by encouraging firms to become "eco-efficient" - adding value to products, while using raw materials and energy more efficiently, and minimising pollution. This in turn will create competitive advantage, improve corporate returns and reduce risk;

b) government, as a more cost-effective, flexible and successful alternative to command-and-control;

c) environment - including addressing many of the issues on everyone's agenda - government, business and environmentalists.

J. Hugh Faulkner, executive director, Business Council for Sustainable Development, World Trade Centre Building, Route de l'Aéroport 10, Geneva, Switzerland

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

ERM: Arguments favour giving priority to monetary policy and a large realignment

From Sir Alan Walters.

Sir, The economic case argued by the "MIT Six" (Personal View, July 29) for the burial of the exchange rate mechanism is as welcome as it is irrefutable.

The Six, however, were late in changing their views. One of them, Rüdiger Dornbusch, is on record at a G7C meeting only 14 months ago in claiming that there was nothing wrong with the ERM that a lira deviation would not cure. The Six indeed have to explain away their erstwhile support of the ERM. They thereby assert that the ERM in its early years was a good system in inducing reductions in inflation but somehow it became rigid and perverse.

As you know, together with a very few others I have argued that there is no evi-

dence that the ERM countries reduced inflation any faster than the outsiders, that the ERM was and is inherently perverse and unstable, and that the political-market forces would induce the same sort of rigidity that was seen in Bretton Woods.

But these dynamics, masked until 1990 by exchange controls, became quite clear over the last three years. Black Wednesday was merely one culmination; there are others to come.

But what concerns me in the MIT Six article is the stress they appear to put on targeting unemployment - "putting unemployment at the top of the list (of priorities)". So we may well risk falling out of the ERM trying to put a Keynesian inflexion.

Targeting unemployment, as we know from the post-second world war years, gave us even

more unemployment and rampant inflation. Surely the first priority should be stable monetary policy, not unemployment. At the very least a stable monetary policy should save us from the exacerbations of inflation and recession that we have experienced, either outside or inside the ERM, by pegging sterling to the D-Mark.

Alan Walters, vice chairman and director, AIC Trading Corporation, 1200 19th Street NW, Suite 605, Washington DC 20036, US

From Professor Antonio Marques Mendes.
Sir, The MIT professors and

Nobel laureates, in their early burial of the European Monetary System, reminded me of Mark Twain's quote, "The announcement of my death is premature". Although I am not an enthusiast of the ERM, I was astonished to see no mention of a large realignment as a possible solution to the current ERM crisis.

(Since I co-share the authors' (presumed) preference for living in a world of fixed, but adjustable, exchange rates, I cannot see what their advocacy of a "new EMS" can bring as new to lay down the stepping stones of a future international monetary system.

Antonio Marques Mendes, senior corporate economist, European Bank for Reconstruction and Development, 1 Exchange Square, London EC2A 3EH

Notes for avant-garde ear

From Mr Robin Boyle.

Sir, In his article on the future of the European orchestra (Arts, July 24/25) Sir Alan Peacock asserted derogatorily that "many serious composers of today are not primarily interested in winning over the public".

But why should they be? Those composers whose works are most likely to stand the test of time are by definition avant-garde in the sense that their unique creativity extends musical boundaries beyond the previous experience of the listening public.

The 20th century is notable

(and notorious) for the number of major commissions that did not win over the public when first performed, but which have subsequently become standard works in the repertoire.

If the Arts Council lacks both historical perspective and vision and expects all composers to be user-friendly and market-oriented it will stifle the imperative originality from which great works spring.

Robin Boyle, chairman, Faber Music, 5 Queen Square, London WC1N 3AU

Better deal for small investors

From Dr M. E. Robinson.

Sir, Lex suggests ("Sharelink", July 24/25) that "without further tax incentives from government, the high ideal of a share-owning democracy will remain no more than that".

Perhaps a more effective incentive would be for market makers to reduce their bid-offer spreads? A £1,000 purchase typically returns £725 to £825 on selling at an

unchanged mid-price, with £20 to £200 going to the market maker, depending on the liquidity of the security, £50 to the stockbroker and £25 to the government in stamp duty.

If everyone received as little as the government, the small investor would be well served. M. E. Robinson, 25 Parkfield Close, Grove, Warrington, Cheshire SK12 0NQ

Lloyds ahead 35% to £498m

falls in base rates, which reduced earnings on UK interest-free deposits. It lost earnings of £38.4m on interest-free funds of £5.4bn as the net interest margin narrowed to 3.97 per cent (4.36 per cent last year).

This squeezed income in the bank banking, where it made a profit of £17m (£3m loss). Operating profits fell by 4 per cent despite a 5 per cent reduction in costs, and provisions for bad and doubtful debts fell to £59.8m (£24.1m).

Mr Pitman said this was a "losses return on equity of about 4.8% but the bank believed it could raise returns substantially as provisions fell by cutting costs at 1 per cent per year while raising income 5 per cent a year.

Some of Lloyd's ratios were affected by the adoption of an EC directive which requires growing up of assets, and a new standard for recommended Accounting Practice. The bank also adopted the FRS3 accounting standard for the first time.

These changes lowered the restated tier 1 ratio of core capital to risk-weighted assets to 6 per cent (6.2 per cent restated from 6.7 per cent). Including unaudited retained profits, the figure would rise to 6.5 per cent.

The ratio of costs to income fell to 85.5 per cent (87.4 per cent restated from 83 per cent).

The bank's total operating profit before provisions rose by



10 per cent to \$632m (\$577m restated). But costs rose by 12 per cent on an exchange rate movements despite a 4 per cent reduction in the number of employees to 62,551.

Assets grew 7 per cent on the end of 1982 to \$741m. Holdings of debt securities rose to \$4.7bn (\$3.4bn), and the acquisition of the Agricultural Mortgage Corporation added \$11m. Customer loans rose marginally to \$38.1m (\$38.8m).

Mr Pitman said the scope for providing domestic loans was limited by the fact that inflation has fallen. He said the bank would try to generate added income by being more innovative in devising personal savings products.

Provisions fell 34 per cent to £138m (£209m), as the bank's problem country debt unit made a profit of £178m. Excluding the problem country debt provision release, the charge of £292m was 6 per cent down on the first half of 1982.

Earnings per share rose 43 per cent to 23.5p (16.4p) and assets per share rose 13 per cent to 232p (205p).

The shares closed 25p down at 557p. See Lex

By Catherine Milton

HEWDEN STUART, the plant hire company, is buying **Fireplant**, a general plant and tool hire business, from **BET** for £10.8m in cash.

The deal is being partly financed through a placing of 10 million new shares, at 105p, to existing shareholders of 6m new ordinary shares each at a price of 119p. The shares closed up 2½p at 121½p yesterday.

Fireplant has some 400 employees, operates 24,000 items of plant and has its head office near Oxford. It is an amalgamation of the general plant and tool hire activities of **BET**, the business services company, which until about two years ago, traded under their own names.

Hewden Stuart will acquire the 28 freehold properties and 10 leasehold properties through which **Fireplant** operates. Its depots are spread throughout the UK, although its main base is located in the Midlands and south of England.

Five are in Scotland, under the name of **Bob Tait Plant**, which has a separate operation with its own head office.

Current figures of **Fireplant** for the year ended March 31 1994, estimate turnover of £18m and a trading loss of £500,000.

By Peggy Hollinger

FIRST NATIONAL Finance Corporation, the consumer credit giant group which earlier this year found itself in breach of banking covenants, has narrowly avoided collapse by clinching a refinancing deal for its £1.1bn debt owed to 107 international banks.

After negotiating for some time, the group had not been agreed, the group could have been forced to call in administrators. This is the second time in 20 years that FNFC has come close to collapse. It was rescued by the Bank of England after the banking crisis in the mid-1970s.

The deal was finally signed late on Thursday night, after the company gave written assurances to a US bank that all creditors would receive equal treatment. Agreement opened the way for FNFC to resume dividend payments after two years and report its interim results, showing a reduction in pre-tax losses from a restated £39.6m to £5.53m for the six months to the end of March.

FNFC has won a five-year breathing space for repayment of its £1.1bn debt. The banks are not providing any new

funds. In return, FNFC has agreed to wind down the loss-making First National Commercial Bank, which provides term lending to property oriented businesses. It has also agreed to tighter covenants on gearing ratios.

Mr. Flin Ingram, financial director, said the deal put the company on a firm financial basis. Borrowing costs were expected to be 0.8 per cent higher.

The group's difficulties stem from the breach of one covenant in 1988 which was discovered this year. This related to loan guarantees between subsidiaries and the parent. Cross default agreements meant all creditors could call for immediate repayment of debts when it was discovered that this ban had been breached. Although FNFC had not defaulted on its repayment obligations, discovery of the breach following two years of headwinds is thought to have made creditors nervous.

FNFC's debt can be split into three parts - loans to First National Bank of £78m, loans to FNCB of £236m, and loans to the parent of about \$90m.

The group intends to repay

the banks largely through securitising the assets of its main operating subsidiary, FNB. This, in effect, means packaging parts of its loan portfolio and putting them into a "balance sheet vehicle". This then raises cash by issuing notes to investors.

Part of the refinancing agreement calls for 90 per cent of First National Bank's future business to be "securitisable".

PNCB's debt will be repayable as its loan book is reduced. Interest to the parent will be paid with cash from January's £45m rights issue and property sales. Costs of negotiating the refinancing are expected to be about £5m.

In its results, prepared in accordance with FRS 3, the group declared a dividend of 0.5p. Mr Ingram said that restrictions on pay-outs by subsidiaries to the quoted parent meant these funds would be great dividends in dividends from FNFC for a few years. Losses per share fell to 2.5p (21.7p).

FNFC's core consumer credit business showed a £10.4m profit (£12.8m losses). Commercial lending, earmarked for closure, incurred heavier losses of \$8m (£5.5m).

By Bernard Simon in Toronto

BIRMINGHAM Midlands building society, the 13th largest in the UK, has acquired the bulk of the UK residential mortgage portfolio of Canada's Royal Trust Bank.

The purchase price of £160m is close to the level at which the mortgages are carried on the books of Centra, RT Bank's Toronto-based parent.

Most of the mortgages cover properties in southern England.

Centra, formerly known as Royal Trustco, is selling its operations to Royal Bank of Canada. The proceeds from the UK sale are expected to make up a shortfall in the value of loans sold to Royal Bank.

Centra said it was negotiating the sale of the rest of its UK residential mortgages and another deal was expected to be finalised next month.

The sale of the mortgage portfolio to Birmingham Midshires made up about 50 per cent of RT Bank's real estate exposure. The bank is also trying to sell parts of its UK commercial and retail property loans.

RT Bank, which has had a presence in London for more than 60 years, is unlikely to survive for long as a separate entity. Royal Bank is taking over its UK operations and liabilities, while Centra is shrinking its asset base.

By Zhang Tingting

ANGLIA Secure Homes, the builder and manager of retirement homes, achieved a reduction in pre-tax losses from £5.08m to £2.3m in the six months to end-March.

Turnover improved to £6.76m (£6.51m) including a £2.2m (£2.1m) contribution from Haven Services, 51 per cent owned by Anglia. The pre-tax result was after a fall from £1.81m to £508,000 in exceptional costs and reduced interest payments of £748,000 (£1.31m).

Losses per share fell to 7.5p (15.4p) and there is no dividend. Anglia last paid a dividend in respect of the year to September 1989. Its share price

Forminster, the clothing manufacturer for mail order and chain stores, lifted pre-tax profits from £2.11m to £2.21m in the year to April 30. Turnover rose to £23.8m against £22m.

The company had continued to expand, said Mr Ronald Gulliver, chairman, despite difficult trading conditions and the recession.

While continuing to manufacture in the UK, the company was also developing its imports side, he said.

After an unchanged tax charge of £725,000, earnings per share worked out at 53.5p (46.7p) and the proposed final dividend of 10.04p (8.75p) lifts the total for the year from 12.53p to 14p.

SEET, the textiles company, cut losses from £370,138 to £60,640 in the year to April 30 and Mr Jack Mackenzie, the chairman, reported that the company's financial position had also strengthened materially in the period.

This improvement had arisen from the settlement of the Homemaker action in June last year, the sale of Kenneth Mackenzie in November and the settlement of a professional negligence claim in April this year.

As a result, the sale of Kenneth Mackenzie Holdings for £1.25m last October and the receipt of money from the US following litigation there, group net borrowings at the year end were reduced from

WOLSTENHOLME Rink, the painting industry supplier, has bought the varnish and resins division of Leon Frenkel, a privately-owned company in Kent, for £3.83m.

An initial payment of £3.15m will be satisfied by the issue of 350,000 shares at 480p and 1.154m in cash. The shares have been placed by Cazenove & Co, 100, Cannon Row, London E14 6PL, the placing being underwritten by Cazenove.

The final £275,000 will be paid after Frenkel has moved its other businesses, involving the mixing and bottling of cooking and salad oils, from the building which houses the varnishes division and is expected to be made within two years. The sale proceeds will be used to finance the move to a new factory near the existing site.

In the year to the end of October 1992, the resins and

varnish division made pre-tax profits of £161,000 on turnover of £5.7m out of group profits of £755,000 and turnover of £24.3m.

The acquisition continues Wolstenholme's policy of making acquisitions geared to international expansion, which began with its takeover of Rye, the Netherlands-based speciality chemicals group in 1991.

Varnishes, and the resins are used to manufacture them, make up the liquid element of printing inks and the purchase completes a vital piece of the printing products jigsaw for Wolstenholme.

Mr Tony Rink, Wolstenholme's joint chairman, said: "We are building a portfolio of products that can call on the international print ink industry."

Wolstenholme's share price closed unchanged at 47p.

JOHN LUSTY Group, the USM-joined food manufacturer formerly known as Dumas Group, reported pre-tax losses np from \$976,000 to \$2.25m for the year to January 31.

Turnover for the year rose slightly, from \$8.62m to \$8.68m. Of this, continuing operations were responsible for \$7.94m (\$7.7m). Losses per share were 19.38p (15.24p).

Mr David Hamp-Adams, who took over as chairman after the company's restructuring and name change in February this year, said discussions were under way regarding the sale of Bender and Cussel, which no longer fitted with the group's core business.

The restructuring of the group had already begun to pay off, he said, and despite poor trading conditions, its future now looked more secure than it had for some time.

The net asset value at
30 June 1993
DfL 8.31
Approved by Ivory & Sime PLC
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To the Holder of
NORWEST CORPORATION
U.S. \$100,000,000
Floating Rate Subordinated Capital Notes due 1998

NOTICE IS HEREBY GIVEN THAT, pursuant to the provisions of the Indenture dated as of April 30, 1986, between Norwest Corporation and Bankers Trust Company, as Trustee, the Company has elected to redeem all of the outstanding Floating Rate Subordinated Capital Notes due April 30, 1998 at the Redemption Price of 100% of the principal amount on the next Interest Payment Date, October 29, 1993 (the "Redemption Date"). The Redemption Price will be due and payable on each Note on the Redemption Date, and interest thereon shall cease to accrue on and after the Redemption Date.

Payment of the Redemption Price will be made upon presentation and surrender of the Notes, with all unmaturoed coupons attached, at the offices of any of the Paying Agents listed below:

Bankers Trust Company 120 Broadway Broadway London EC2A 4HE England	Banque Internationale à Luxembourg S.A. 2 Boulevard Royal L-2553 Luxembourg
Swiss Bank Corporation 1 Aeschenwiese CH-4002 Basle Switzerland	Banque Indosuez - Belgeuse S.A. Place Saint-Gudule 14 1000 Brussels Belgium

Accrued interest due October 29, 1993, will be paid on the normal manner at presentation of Coupon No. 12 on or after October 19, 1993.

The Notes will no longer be deemed outstanding on and after October 29, 1993 and all rights with respect thereto will cease, except only the right of the holders to receive the Redemption Price.

All conditions precedent to this redemption have occurred.

NORWEST CORPORATION
By: Bankers Trust Company,
as Trustee

Dated: July 31, 1993

By Kenneth Goding, Mining Correspondent

CONSUMA MINERALS, a small finance house, is having negoti-
ated a three-sided merger with Burn-
in Gold, two Australian companies
already closely involved.

In addition Mount Edon, an
concern, had made an approach
lead to the offer.

Euro's two independent di-
rectors, Mr Douglas and Mr Peter Ronay
the merger with Burnin and
independent review of asset val-
made before formal terms are
they are likely to involve shareholders
one Burnin share for every two
With Burnin's shares at A\$2
this indicates a value of about
Euro ordinary and £10.3m for
The Europa price slipped 2p
ately after the news. It has been
the past year and in June 1992
of a rights issue of shares at 5p
which was expected to be nega-
Australia, and Burnin and
which were suspended after
announcement that the three-way
was a possibility.

Each and to have indicated it
 capital investments are oil and gas
 8 per cent of Burnmie, a gold
 tern Australia.
 exploration company, owns 19.8
 opa. Burnmie would also offer
 yers 11 Austinin, but this would
 's 18.1 per cent stake in Consol-
 pendent directors argued that
 enable the complex sharehold-
 ings. They also considered that
 combined strength could be more
 by the market and provide a
 future growth.
 proposals Europa and Austinin
 10 per cent and 7 per cent respec-
 tively. These cross holdings would
 raise additional cash for the
 which would have a market
 \$63m.

Unilever is to expand its bakery raw materials activities in Germany. It has agreed with Diamant in Munich and BWM Backermuhlen in Stuttgart to take over Diamant's interests in baking products and malt extracts, supplied to bakeries and the bread products industry.

The deal, which requires Bundeskartellamt approval, is expected to become effective on October 1. The company said the consideration was not significant in relation to Unilever's assets.

Cheltenham & Gloucester, the sixth largest building society, disclosed a 71 per cent rise in pre-tax profits from £44.1m to £76.3m in the six months to June 30 after provisions for bad and doubtful debts eased. Provisions fell to £75.3m (£98.5m) as the society did not have to repeat the provisions made last year to cover commercial lending and inherited losses from its merger with the former Portsmouth Building Society.

The society's assets rose by 2.5 per cent to £16.5m (£15.3m) as mortgage lending rose 1.6 per cent to £1.1m helped by fixed rate products. However, the society predicted that lending for the year would be down on 1992.

Mr Andrew Longhurst, chief executive, said it was "a solid performance in a sombre market". The society discloses half-year results because it has a permanent interest in hearing shams (RHS).

PC WARBURG, global co-ordinator of the British Telecom public offer, has paid £384m to buy an additional 11.5m shares from the government to meet international demand. The purchase, at the offer price of 420p, puts the number of shares taken by foreign investors up to 578.5m, against 732m sold in the UK public offer.

The total number of British Telecom shares sold by the government now comes to 1.31m. Warburgs said that although the purchase was marked the end of the 30 day stabilisation period, at no stage had there been a need to support

Radiant Metal loss deepens to £112,784

Increased pre-tax losses of £112,784 were announced by Radiant Metal Finishing, the electroplating, metal finishing and property group, for the year to February 28. Losses last time were £91,505.

The start-up costs for a division to supply telephone-interfaced information technology was the main factor behind a fall in pre-tax profits from £1.04m to £580.0m in the year to March 31 at Zettlers Group.

The costs led to increased operating losses of £155.000 (£24.000) in the competitions and marketing activities. The profits from pools fell to £912.000 (£844.000) after lower interest received.

Pool turnover was £22m (£22.9m) of which pools provided £21.5m (£22.4m). Earnings per share were 8.9p (10p).

An unchanged final dividend of 4p is proposed for a main dividend of 1.6p.

Continuing the recovery seen at the interim stage when preprofits were £53,000 the year-end figure was £115,000, against losses of £177,000. Turnover was £11.6m (£11m). Since the end of February business confidence and consumer demand had improved and in the present period sales were ahead of last year. Earnings per share were 1.14p (losses 3.29p).

Net earnings of Kleinwort High Income Trust for the year ended June 30 dropped from £2.59m to £2.37m, equivalent to 7.68p (8.64p) per share. The fourth quarterly dividend is 1.875p (same) for a maintained total of 7.5p for the

	Current payment	D p
NFC Int	0.5	5
Cominister fin	10.04	0
Loyds Bank Int	6.6	0
Letters fin	1	0

Dividends shown	pence per share net
Advanced capital	\$18M stand

LONDON RECENT ISSUES

[illegible][illegible]

RIGHTS OFFERS							
Issue Price p	Amount Paid td	Latest Renewal Date	1993		Stock	Offering Price p	+
			High	Low			
122	NI	2/78	45m	50m	ACT	60m	+
69	NI	6/92	10m	10m	Alcoa	10m	+
5	NI	2/96	4m	4m	Atlantic Rich	3m	+
140	NI	6/92	90m	10m	Bank of Ireland	2m	+
132	NI	3/90	10m	10m	BDO	2m	+
500	NI	3/90	100m	10m	Citic Group	2m	+
182	NI	2/92	15m	15m	Cummins	2m	+
5	NI	6/92	5m	10m	Deering	2m	+
5	NI	6/92	5m	10m	Frederick Lenz	2m	+
120	NI	1/93	20m	20m	GenCorp	2m	+
210	NI	1/93	40m	41m	Smith Barney Court	2m	+

TRADITIONAL OPTIONS

● First Dealings	July 28	Ferranti, Glenchewton, Kalanazoo
● Last Dealings	Aug. 2	Mieys, NMC, Ratners; Shandwick
● Last Declarations	Oct. 28	and Sharelink. Put: Denafrost
● For settlement	Nov. 8	Mieys, NMC and Unilever. Put

3-month call rate indications are shown on page 11.

Call: Ferranti, Hanson Wts. and Shandwick.

MONTHLY AVERAGES OF STOCK INDICES				
	July	Stock	May	April
FT-SE Actuaries Indices				
100 Index	2850.7	2874.7	2830.1	2857
Mid 250	3226.5	3206.8	3147.1	3105
350 Share	1438.9	1434.0	1410.7	1409
Industrial Group	1438.9	1448.49	1431.20	1432.7
500 Share	1521.62	1539.22	1522.89	1525.2
Financial Group	1074.45	1046.34	1002.84	990.4
All-Share	1413.98	1418.94	1397.10	1398.7
Eurostock 100	1226.39	1183.38	1152.61	1152.22
Eurostock 200				

	12/1/90	12/15/90	12/29/90
FT Indices			
Government Securities	98.10	95.90	94.84
Fixed Interest			98.22
Ordinary	116.75	112.70	111.13
Gold Mines	224.2	224.2	220.7
SEAQ Bargains(5.00pm)	225.2	186.1	121.3
	28.45	28.45	28.55
			30.76
Highest Close/Day			
FT-SE 100	2292.5 (30th)	2214.1 (21st)	
FT-SE Mid 250	3506.6 (30th)	3185.4 (21st)	
FT-SE 350	1484.0 (30th)	1408.4 (21st)	
FT-A All Share	1448.75 (30th)		

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World



FT. IMF



ECONOMIC DIARY

TODAY: Mr F.W. de Klerk, South African president, pays visit to Zambia, opens trade fair and talks with Mr Frederick Chiluba, Zambia's president. Mr Warren Christopher, US secretary of state, visits Egypt at start of Middle East tour. Russian parliament in session in Moscow. Mr Paddy Ashdown, Liberal Democrat leader, visits Bosnia, Serbia and Croatia.

TOMORROW: Congress due to begin debate in Lima on referendum law in preparation for referendum on Peru's proposed constitution.

MONDAY: Cyclical indicators for the UK economy (July - first estimate). US construction spending (June). NAPM (July). Launch of Building Material Producers construction industry forecasts. Interim statements from Abbey National and BSA Group.

TUESDAY: Major British banking group's mortgage lending (second quarter). Major British banking group's quarterly analysis of lending (second quarter). UK official reserves (July). Monetary statistics (including bank and building society balance sheets; bank and building society sterling; lending and M4 quarterly sectoral analysis) (June); MO figures (June/July). Bill turnover statistics (June). Sterling commercial paper (June). Money market statistics (June). London sterling certificates of deposit (June). Provisional analysis of bank lending for house purchase (second quarter). US leading indicators (June). Interim statement from National Westminster Bank. Charter Consolidated holds annual general meeting.

WEDNESDAY: Overseas travel and tourism (May). Housing starts and completions (June). Advance energy statistics (second quarter). Interim statement from Midland Bank.

THURSDAY: Details of employment, unemployment, earnings, prices and other indicators. Balance of payments advance annual estimates (1992). US factory orders (June). Interim results from Barclays Bank. Reed International, TI and BP.

FRIDAY: Insolvency statistics (second quarter) from the British Chambers of Commerce.

LIFE EQUITY OPTIONS

Option	CALLS	PUTS	Option	CALLS	PUTS	Option	CALLS	PUTS
Alcatel-Lucent	300 27 58 60 125 22 205	300 27 58 60 125 22 205	Alcatel-Lucent	300 27 58 60 125 22 205	300 27 58 60 125 22 205	Alcatel-Lucent	300 27 58 60 125 22 205	300 27 58 60 125 22 205
Amgen	300 27 58 60 125 22 205	300 27 58 60 125 22 205	Amgen	300 27 58 60 125 22 205	300 27 58 60 125 22 205	Amgen	300 27 58 60 125 22 205	300 27 58 60 125 22 205
Amgen	300 27 58 60 125 22 205	300 27 58 60 125 22 205	Amgen	300 27 58 60 125 22 205	300 27 58 60 125 22 205	Amgen	300 27 58 60 125 22 205	300 27 58 60 125 22 205
Amgen	300 27 58 60 125 22 205	300 27 58 60 125 22 205	Amgen	300 27 58 60 125 22 205	300 27 58 60 125 22 205	Amgen	300 27 58 60 125 22 205	300 27 58 60 125 22 205

TRADITIONAL OPTION 3-month call rates

Option	CALLS	PUTS	Option	CALLS	PUTS	Option	CALLS	PUTS
Alcatel-Lucent	300 27 58 60 125 22 205	300 27 58 60 125 22 205	Alcatel-Lucent	300 27 58 60 125 22 205	300 27 58 60 125 22 205	Alcatel-Lucent	300 27 58 60 125 22 205	300 27 58 60 125 22 205
Amgen	300 27 58 60 125 22 205	300 27 58 60 125 22 205	Amgen	300 27 58 60 125 22 205	300 27 58 60 125 22 205	Amgen	300 27 58 60 125 22 205	300 27 58 60 125 22 205
Amgen	300 27 58 60 125 22 205	300 27 58 60 125 22 205	Amgen	300 27 58 60 125 22 205	300 27 58 60 125 22 205	Amgen	300 27 58 60 125 22 205	300 27 58 60 125 22 205
Amgen	300 27 58 60 125 22 205	300 27 58 60 125 22 205	Amgen	300 27 58 60 125 22 205	300 27 58 60 125 22 205	Amgen	300 27 58 60 125 22 205	300 27 58 60 125 22 205

FT FIXED INTEREST INDICES

Index	July 30	July 25	July 20	July 15	July 10	July 5	June 30
100% Govt	100.00	100.00	100.00	100.00	100.00	100.00	100.00
100% Govt	100.00	100.00	100.00	100.00	100.00	100.00	100.00
100% Govt	100.00	100.00	100.00	100.00	100.00	100.00	100.00
100% Govt	100.00	100.00	100.00	100.00	100.00	100.00	100.00

GILT EDGED ACTIVITY

Index	July 30	July 25	July 20	July 15	July 10	July 5	June 30
100% Govt	100.00	100.00	100.00	100.00	100.00	100.00	100.00
100% Govt	100.00	100.00	100.00	100.00	100.00	100.00	100.00
100% Govt	100.00	100.00	100.00	100.00	100.00	100.00	100.00
100% Govt	100.00	100.00	100.00	100.00	100.00	100.00	100.00

COMMODITIES

WEEK IN THE MARKETS

Gold breaks through \$400 barrier

THE BUNDESBANK this week inadvertently succeeded where international speculators had repeatedly failed - by pushing the gold price through the psychologically-important \$400-a-ounce barrier.

In response to the foreign exchange turmoil caused by the crisis into which the German central bank's refusal to cut its discount rate had precipitated the European Community's exchange rate mechanism, the price of the yellow metal - a traditional haven for money in times of currency uncertainty - leapt \$11.65 to a post-Gulf War high of \$405.75 an ounce on London bullion market yesterday.

Yesterday's rise built on earlier gains reflecting concern about last weekend's violence in South Africa, the highest gold producer, and the publication of a series of strong US economic indicators. But these factors had never threatened to lift the market out of its \$388 to \$395-a-ounce range, let alone to encourage a fresh assault on the \$400 mark.

Attempts to clear that hurdle two and a half weeks ago faltered in the face of stiff overhead resistance and the spirited bulls allowed the price to settle back into its restricted range. But they had not abandoned all hope and this week's ERM crisis provided just the excuse they had been looking for to renew their efforts.

The silver and platinum markets joined in the fun, the former ending 37 cents up on the week at \$5.37 an ounce and the latter \$9.45 up at \$413.60 an

ounce. At the London Metal Exchange, meanwhile the exchange authorities stepped in to stop the fun some copper market operators are suspected of having in recent weeks.

After expressing concern two weeks ago about technical supply tightness that was developing for the September-early October period, Mr David King, the chief executive, reacted this Thursday to continuing signs of market manipulation with a stern warning that the exchange "will not hesitate to take such steps as are deemed necessary in the light of any changing situation".

The authorities' concern was caused by a growing premium being charged for September delivery over the three months position, which had reached \$17 a tonne. Such a situation - known in the trade as a "backwardation" because it is a reversal of the normal situation where forward positions at command premiums over nearbys - is usually associated with supply tightness, an explanation that hardly applies at the moment, with LME warehouse stocks close to a 15-year high.

The guilty parties seemed yesterday to be paying little heed to Mr King's warning; the September-October premium had narrowed by only \$1 a tonne by the close. And in defiance of the clearly bullish fundamentals the three months position edged up another \$1.50 to \$1,967.50 a tonne, up \$58.75 on the week, while cash metal was up \$10.50

on the day and \$81 on the week at \$1,978.00 a tonne. The nickel market's fundamentals are still more bearish - LME stocks have reached a record 101,568 tonnes - and there has been no attempt to defy them. This week saw a technical rally from the six-year lows reached on Monday, but that ran out steam yesterday, when the three months price fell back by \$87.50 to \$4,940 a tonne, up \$30 on balance.

The tin market had few friends as the recent gentle downturn in stocks was reversed and demand remained slack. The three months LME price closed yesterday at \$4,887.50 a tonne, down \$57.50 on the week and a fresh 20-year low.

The mood of the coffee market was altogether more cheerful. Although the Brazilian frost scare that pushed the London Commodity Exchange's September robusta position above \$1,000 earlier this month had all but faded from traders' memories, increasing faith in producers' determination to make their export retention scheme effective kept the market on the upswing. The September futures price touched a seven-month high of \$1,044 a tonne

yesterday, before closing at \$1,037 a tonne, up \$44 on the week.

As Latin American producers met in Rio de Janeiro this week to thrash out details of the cartel through which they plan to operate their agreed 20 per cent retention of scheduled exports, coffee traders continued to withdraw from the scepticism with which they had initially greeted the scheme.

"The retention scheme is now almost a fact of life," one trader told the Reuters news agency. "The only thing now is how long it's going to last and what will be the effect."

Having accepted that the Latin Americans mean what they say the coffee market is looking with growing interest towards their meeting next month in Kampala, Uganda, aimed at agreeing a co-ordinated retention plan. Mr Arega Worku, secretary-general of the Inter-African Coffee Organisation, said yesterday that ministers from African producing countries, Brazil, Colombia, Indonesia and Central America would meet on August 16 and 17. He said the scheme should be in place the start of the 1993-4 coffee marketing season on October 1.

"The coffee retention plan has been well-timed, according to the latest coffee report from E.D. & F. Man, the London trade house. "Producer stocks are low and exportable production is around or below annual international demand, which we estimate at some 74m bags."

Richard Mooney

FT-ACTUARIES FIXED INTEREST INDICES

PRICE INDICES	AVERAGE GROSS REDEMPTION YIELDS				1993	
	Jul 30	Jul 25	Jul 20	Jul 15	High	Low
100% Govt	100.00	100.00	100.00	100.00	100.00	100.00
100% Govt	100.00	100.00	100.00	100.00	100.00	100.00
100% Govt	100.00	100.00	100.00	100.00	100.00	100.00
100% Govt	100.00	100.00	100.00	100.00	100.00	100.00

Wouldn't you like to talk to the people who make the world go round?



The IMF/World Bank meetings in Washington this September hold a special interest for top decision makers.

Today they have to think beyond national borders and take account of global issues. And they will look to the Financial Times for the most authoritative reporting of events as they unfold in Washington.

The Financial Times IMF/World Economy and Finance Survey will be published on Friday, September 24 to coincide with the Washington meetings.

It will deliver a unique opportunity for advertisers to speak directly to a very select group of people. To ensure your message is not lost please telephone Hannah Pursall in London +44 (0) 71 873 4187 or your usual Financial Times representative.

FT. IMF/World Economy and Finance Survey.

Lloyds Bank results for the first half of 1993

"Pre-tax profits rose by 35 per cent to £498 million and we have increased the interim dividend by 12 per cent. The results were helped by a further improvement in our problem country debt portfolio, and all our main businesses showed better profits."

I have been encouraged by the recent trends in several economic indicators. There are signs that credit quality is improving and our prudent provisioning should strengthen future earnings. We are well placed to support our customers and to benefit from economic recovery as it develops."

Sir Robin Ibb, Chairman

	Half-year to 30 June 1993 (unaudited) £m	Half-year to 30 June 1992 £m	Half-year to 30 June 1991 £m
Profit before tax	498	369	432
Tax	156	123	157
Profit after tax	342	246	275
Minority interests	43	40	40
Profit attributable to shareholders	299	206	235
Dividends	84	75	158
Post-tax return on average shareholders' equity	21.3%	16.4%	17.7%
Earnings per share	23.5p	16.4p	18.6p
Dividends per share	6.6p	5.9p	12.5p

Financial information for the year ended 31 December 1992 is based on the statutory accounts for 1992 which have been delivered to the registrar of companies. The auditors' report on these accounts was unqualified and did not include a statement under sections 237(1) or (3) of the Companies Act 1985.

An interim dividend of 6.6p per share will be paid on 14 October 1993 to shareholders registered on 12 August 1993. Shareholders will be offered the choice of taking ordinary shares instead of the cash dividend.

Copies of the news release may be obtained from Finance Division, Lloyds Bank Plc, 71 Lombard Street, London EC3P 3BS. Telephone: 071-356 1275.



THE THOROUGHbred BANK.

INTERNATIONAL COMPANIES AND FINANCE

Microsoft estimates batter shares

By Louise Kehoe
in San Francisco

SHARES of Microsoft, the world's largest computer software company, dropped sharply yesterday as analysts cut their estimates for fiscal 1994 earnings.

Microsoft was trading at \$73.40, down 5% from Thursday's close, at midday.

The fall followed a meeting with analysts at the company's Redmond, Washington, headquarters where Microsoft warned of slower growth in revenues.

"We are planning for growth, but we do not expect to maintain the 36 per cent revenue growth rate we achieved in fiscal 1993," said Mr. Mike Brown, treasurer.

First-quarter revenue may be lower than the \$1.1bn recorded for the fourth quarter of fiscal 1993, he added.

Microsoft, which is under investigation by the US Federal Trade Commission for alleged anti-trust violations, stressed the competitive pressure it faced in several segments of the software market.

However, the company also boasted it had overtaken competitors in the markets for spreadsheets and word processors using the Windows operating system.

Over the past five years,

INTERNATIONAL Business Machines has set up a committee of non-executive directors with responsibility for corporate governance issues, such as the appointment and powers of directors, writes Richard Waters in New York.

The move was seen as a further attempt by Mr. Lou Gerstner, IBM chairman, to ease shareholder concerns over the composition of the struggling computer group's board. Mr. Gerstner indicated at the time of his appointment in April that the make-up of the board would be reviewed to ensure it was "relevant, appropriate and evolving".

The committee is chaired by Mr. James Burke, a former chairman of Johnson & Johnson and

head of the committee of non-executive directors which picked Mr. Gerstner to head IBM earlier this year.

Mr. Burke, an IBM director since 1980, is joined in the committee by other long-standing IBM directors, including Mr. John Opal, a former chairman, Mr. Charles Knight, chairman of Emerson Electric, who was appointed a director last Tuesday, is the only member of the five-man committee not involved with the pre-Gerstner regime at IBM.

The board will be responsible for nominating directors for appointment and "all other issues of corporate governance", IBM said.

Microsoft's revenues have grown at an average annual rate of 46 per cent. However, Microsoft executives highlighted several market trends that may dampen the company's growth rate this year.

Mr. Steve Ballmer, executive vice-president, said much of the growth of Microsoft's sales had been driven by a transition by PC users to Windows, from MS-DOS, an older PC operating system program. With 30m copies of Windows already in use, and sales running at 1.5m copies per month, the transition period would be completed soon, he said.

Mr. Ballmer suggested Microsoft's future growth rate would more closely reflect growth in the PC market, which analysts said is in the range of about 20 per cent per year. He

said the company expected more than half of 1994 revenues to come from products introduced during the year, warning that earnings were becoming increasingly linked to new product cycles.

Pricing pressures, particularly in Europe, could also slow revenue growth, Mr. Ballmer warned. He said Microsoft's competitors were "being increasingly aggressive in pricing". Although PC software companies seldom drop the list prices for products, the effective selling price is often reduced by so-called "competitive upgrades", discounts offered to users of a rival product.

The price pressure is "most extreme" in Europe, he said. Lotus Development in particular was offering products at

"close-to-cost" prices. Microsoft was "not willing to lose market share. That will guide our pricing actions", Mr. Ballmer said.

PC manufacturers are increasingly bundling Microsoft Windows and other software programs with their products, Mr. Ballmer noted. This could also have a dampening effect on revenue growth, although such sales are more profitable for the software company, he said.

The US Justice Department is to review documents from the US Federal Trade Commission's anti-trust investigation of Microsoft, according to a report in the Chicago Tribune.

The review signals the department may take up the case, following two deadlocked votes by the FTC on whether to file a complaint against Microsoft.

Exports from Japan were maintained in unit terms but revenue decreased with the appreciation of the yen.

Non-tyre operations, which represent more than a quarter of the parent's business, were similarly affected - stronger sales of bathroom fittings and office materials were not enough to offset weak demand for chemicals, car seat materials, water tanks and bedding.

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BHF-Bank jumps 23% despite rise in bad loan provisions

By Andrew Fisher
in Frankfurt

BHF-BANK yesterday reported a jump in earnings for the first half of this year, but also increased its bad lending provisions to take account of the poor state of the economy.

The Frankfurt-based merchant bank's group operating profits were 23 per cent higher during the six months, at DM148m (\$86.8m). This was after setting aside DM57m against bad loans, up from DM58m in the same period of 1992.

Partial operating profits, which exclude earnings from the bank's trading on its own account, were up 25 per cent to DM167m.

Like Commerzbank, which this week reported a 16 per cent increase in group operating profits to DM382m, BHF-Bank said it was feeling the effect of Germany's weaker economic performance.

Both banks, however, expect continued profits growth this year. Commerzbank reduced its loan-loss provisions by 20 per cent to DM231m. It said most of this related to domestic lending with the recession having a serious effect on German industry.

Total lending by Commerzbank remained at around the end-1992 level due to lower credit demand from companies and the bank's selective approach to lending.

The latest round of German bank results are the first to include details of their financial preconditions against bad and doubtful debts.

Deutsche Bank has already reported a 13 per cent rise in operating profits to DM2,580m, a comparison being with a half of the full 1992 result.

The decision by German banks to release more details of their bad-loan provisions anticipates a new EC directive requiring greater disclosure for the full 1993 accounting year.

In Deutsche Bank's case, risk provisions in the first half were up from DM955m to DM1,380m.

One of the driving forces behind Commerzbank's profit rise was a sharp rise in commission income, up by 23 per cent to DM395m. The increase reflected a steep rise in securities commissions, the bank said.

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India gets a taste of the great world cola battle

INDIANS have done without the real thing for 15 years. Most have done without any soft drinks at all, with average consumption now at three bottles per person per year compared with 700 in the US.

However, Coca-Cola, Pepsi and local manufacturers are entering battle for domination of an already intensely competitive Rs7.5bn (\$240m) market which, some believe, will expand fourfold in the next five years.

The government, which is seeking foreign investment as part of its economic reform programme, decided recently to allow Coca-Cola to re-enter India, after having expelled it in 1978 in a drive to reduce the role of multinationals in the Indian economy.

Coca-Cola has decided not to go it alone, despite having government approval to set up a 100 per cent-owned venture. The Atlanta-based company will tie up with Parle Exports, which dominates the Indian soft drinks market with a 60 per cent share.

Pepsi-Cola International, Coca-Cola's arch rival around the world, has built up an impressive 30 per cent share of the soft drinks market since its entry two years ago, albeit without using the Pepsi name and operating under several other government-imposed aliases.

Last week, it stepped up its campaign by announcing it would buy out Voltas Limited, its primary equity partner, to double its stake to 92 per cent in Pepsi Foods Limited, its food and beverage joint venture.

Pepsi's buy-out will mean greater control of its manufacturing operations in the key markets of Bombay and Gu-

rat, currently franchised to Voltas, a trading, agribusiness and engineering company owned by the Tata group.

Pepsi executives blame Voltas for Pepsi's inability to make a dent in the Bombay region, which accounts for nearly 15 per cent of the overall market.

In Bombay, Pepsi and Voltas were taking on Mr. Ramesh Chaudhary, India's cola king, who heads Parle. He has managed to build a strong market share in the region.

Parle will receive compensation from Coke for putting into the joint venture its successful brands Thums Up cola; Limca, a cloudy lemon drink; Gold Spot, orange; Citra, clear lemon; and Mazza, a mango fruit drink.

Pepsi believes Parle's tie-up with Coke will mean that Coke and Parle's brands will jostle for the Indian cola market to the benefit of Pepsi. "We have dealt with Coke in 152 countries, so we know precisely what we are in for now," says a Pepsi executive.

Pepsi plans to invest Rs20m in India, mostly in the soft drinks business.

Sales of its cola have grown 33 per cent in 1992, and are up an additional 24 per cent through the first half of this year. The company believes market share will increase once Pepsi is allowed to use its global brand name.

Mr. Chaudhary, however, has a well-entrenched marketing and distribution network, which he had stubbornly refused to share with a foreign company, even a month ago. "Lots of people ask us what we will do to counter Coca-Cola," he said. "We are the market leaders and it is for the new entrants to work out a strategy to counter us."

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The interim dividend is being held at ¥6 a share, drawn from net earnings per share of ¥8.11 compared with ¥13.83.

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company's annual turnover. The company says: "We will now apply to the government to be treated on par with Coke, and the Pepsi brand name will be introduced soon."

Coca-Cola and Parle will form two joint ventures. One for bottling soft drinks (Parle owns two bottling plants in Bombay and Delhi and has 60 franchised bottling plants across India), and the other for marketing the brands of both companies.

Parle will receive compensation from Coke for putting into the joint venture its successful brands Thums Up cola; Limca, a cloudy lemon drink; Gold Spot, orange; Citra, clear lemon; and Mazza, a mango fruit drink.

Pepsi believes Parle's tie-up with Coke will mean that Coke and Parle's brands will jostle for the Indian cola market to the benefit of Pepsi. "We have dealt with Coke in 152 countries, so we know precisely what we are in for now," says a Pepsi executive.

Pepsi plans to invest Rs20m in India, mostly in the soft drinks business.

Sales of its cola have grown 33 per cent in 1992, and are up an additional 24 per cent through the first half of this year. The company believes market share will increase once Pepsi is allowed to use its global brand name.

Mr. Chaudhary, however, has a well-entrenched marketing and distribution network, which he had stubbornly refused to share with a foreign company, even a month ago. "Lots of people ask us what we will do to counter Coca-Cola," he said. "We are the market leaders and it is for the new entrants to work out a strategy to counter us."

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CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Massive ERM intervention

THE EUROPEAN exchange rate mechanism appeared to be on the brink of collapse yesterday after massive intervention from 6 ERM central banks failed to keep the French franc above its floor in the monetary system, writes James Eilts.

Yesterday's currency intervention by the Bundesbank appeared to be in the order of DM60bn, one of the largest operations conducted by a central bank in a single day of trading. One Bundesbank council member, Mr Johann Wilhelm Gaddum, may also have helped to support the franc by saying that German call money could fall through its discount rate.

But at the end of what was probably the most hectic session of ERM trading over three currencies - the French franc, Belgian franc and Danish krone - were on their ERM floors. After ERM trading closed, central banks did not support these currencies and

the French franc traded below its ERM floor, coming as low as FF3.4330 to the D-Mark.

There were strong indications last night that a meeting of the EC Monetary Committee was being convened, but these could not be confirmed.

At the start of European trading yesterday, the French franc was hovering above the FF3.4180 level which the Bank of France had pledged to defend at the end of last week. But, at about 0900 GMT yesterday, the French authorities appear to have allowed the franc to fall to its ERM floor of FF3.4305. One dealer suggested that the announcement by Mr George Soros, the hedge fund player, may have coincided with a wave of speculation by more short term players.

But, by allowing the franc to fall to its floor in the system, France's tactic may have been to put the onus on the Bundesbank to support the franc.

which it is obliged to do under ERM rules.

"The French have been very clever," said one analyst. "They are effectively saying to the Bundesbank that the only way the system can be saved is by German intervention or a cut in German interest rates."

However, with the dollar closing last night at DM1.7405, up nearly a penny on the day, the prospects for a cut were minimal.

There were strong suggestions last night that ERM members could contemplate a widening of the bands for the core currencies this weekend, broadening the current permitted fluctuation of 2.25 per cent to perhaps 6 per cent.

But Mr Neil MacKinnon, chief currency strategist at Citibank, said this would not be credible in the long term. "The move would not allow France to cut interest rates, which is the key to this crisis," he said.

£ IN NEW YORK

Jul 30	Latest	Previous
1 month	1.4955-1.4965	1.4915-1.4925
3 months	1.4955-1.4965	1.4915-1.4925
6 months	1.4955-1.4965	1.4915-1.4925
12 months	1.4955-1.4965	1.4915-1.4925

Forward premiums and discounts apply to the US dollar.

STERLING INDEX

Jul 30	Latest	Previous
100	100.00	100.00
100	100.00	100.00
100	100.00	100.00
100	100.00	100.00

CURRENCY RATES

Jul 30	Bank	Spot	Forward
US Dollar	1.4955	1.4955	1.4955
German Mark	1.7405	1.7405	1.7405
French Franc	3.4305	3.4305	3.4305
Italian Lira	1.360	1.360	1.360
Spanish Peseta	166.64	166.64	166.64
Portuguese Escudo	200.48	200.48	200.48
Belgian Franc	36.36	36.36	36.36
Dutch Guilder	1.366	1.366	1.366
Swedish Krona	10.46	10.46	10.46
Japanese Yen	160.37	160.37	160.37

Bank rates subject to local time discount rates. Times are not quoted for the US, Spain and Italy.

1000 Franc = 1000 Lira = 1000 Peseta = 1000 Escudo.

All rates are for Jul 30.

Source: Reuters, London.

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EMS EUROPEAN CURRENCY UNIT RATES

Unit	Jul 30	Latest	Previous
100	100.00	100.00	100.00
100	100.00	100.00	100.00
100	100.00	100.00	100.00
100	100.00	100.00	100.00

Source: Reuters, London.

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FINANCIAL FUTURES AND OPTIONS

Strike	Call	Put	Settlement
100	0.00	0.00	0.00
100	0.00	0.00	0.00
100	0.00	0.00	0.00
100	0.00	0.00	0.00

Source: Reuters, London.

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Equities boil over as account closes

By Terry Byland,
UK Stock Market Editor

SPECULATION that the turmoil in ERM currencies will swiftly lead to interest rate cuts throughout the EC continued to drive UK shares ahead yesterday before the equity market rolled over at mid-session as the end of the trading account brought out the profit-takers.

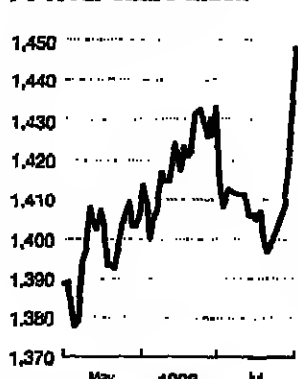
Although the FT-SE index was only 9.9 points up at 2,926.5, after showing a gain of 21.9 earlier, there was no relaxation of the nervous tensions of the previous session. It was a day of rumours, counter-rumours and denials, mostly from currency traders, and London equity

spread demand from home and abroad, stimulated by rumours, soon denied, that the Bundesbank was holding a "special meeting to cut German rates".

The drive forward again came from stock index futures where the September contract reached a 20-point premium to trade above the existing peak of the underlying cash market. However, the Footsie topped out yesterday at 2,935.5, still 17.8 below the closing peak of March 8. The second half of the session saw both futures and share prices come back sharply.

Last night, the Footsie showed a gain of around 3.3 per cent over the two-week equity account, accounted for

FT-A All-Share index



entirely by this week's advance of 98.9 points as currency developments were translated into expectations of interest

rate cuts. The excitement also fuelled gains in the FT-SE Mid 250 index, up 33.5 to a new peak of 3,306.5 yesterday. The Mid 250 has risen by 103.6 points this week, making a gain of 3.8 per cent over the trading account.

Sea volume, swollen by profit-taking, jumped to 763.4m shares from 692m on Thursday when retail or customer worth rose to £1.1m.

Some dealers sounded warning bells when the market turned off so quickly yesterday. At Strauss Turnhill, Mr Ian Harriet commented that the interest rate cut apparently already factored into the market was "essential" if the Footsie was to reach his 3,000 target for this year.

Anglo Saxon	1,407	494	4	Bank of Montreal	1,407	494	4	Bank of Montreal	1,407	494	4
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Anglo Saxon	1,407	494	4	Bank of Montreal	1,407	494	4	Bank of Montreal	1,407	494	4
Anglo Saxon	1,407	494	4	Bank of Montreal	1,407	494	4	Bank of Montreal	1,407	494	4
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Anglo Saxon	1,407	494	4	Bank of Montreal	1,407	494	4	Bank of Montreal	1,407	494	4
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Anglo Saxon	1,407	494	4	Bank of Montreal	1,407	494	4	Bank of Montreal	1,407	494	4
Anglo Saxon	1,407	494	4	Bank of Montreal	1,407	494	4	Bank of Montreal	1,407	494	4
Anglo Saxon	1,407	494	4	Bank of Montreal	1,407	494	4	Bank of Montreal	1,407	494	4
Anglo Saxon	1,407	494	4	Bank of Montreal	1,407	494	4	Bank of Montreal	1,407	494	4
Anglo Saxon	1,407	494	4	Bank of Montreal	1,407	494	4	Bank of Montreal	1,407	494	4
Anglo Saxon	1,407	494	4	Bank of Montreal	1,407	494	4	Bank of Montreal			

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

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● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

هكذا من الاصل

WORLD STOCK MARKETS

US MARKETS

(2:45 pm)

Table with 2 columns: Stock Name, Price. Includes: IBM, Microsoft, Apple, Oracle, etc.

Table with 2 columns: Stock Name, Price. Includes: General Electric, Ford, Boeing, etc.

Table with 2 columns: Stock Name, Price. Includes: Johnson & Johnson, Merck, Pfizer, etc.

Table with 2 columns: Stock Name, Price. Includes: Coca-Cola, McDonald's, etc.

Table with 2 columns: Stock Name, Price. Includes: American Express, Visa, etc.

Table with 2 columns: Stock Name, Price. Includes: United Technologies, etc.

Table with 2 columns: Stock Name, Price. Includes: etc.

Table with 2 columns: Stock Name, Price. Includes: etc.

July 30

Table with 2 columns: Stock Name, Price. Includes: etc.

Table with 2 columns: Stock Name, Price. Includes: etc.

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Table with 2 columns: Stock Name, Price. Includes: etc.

INDICES

Table with 2 columns: Index Name, Value. Includes: DOW JONES, S&P 500, etc.

Table with 2 columns: Index Name, Value. Includes: etc.

Table with 2 columns: Index Name, Value. Includes: etc.

July 30

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Table with 2 columns: Index Name, Value. Includes: etc.

LONDON SHARE SERVICE

AMERICANS

Company	Price	Change	1993	1992	1991	1990	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959	1958	1957	1956	1955	1954	1953	1952	1951	1950	1949	1948	1947	1946	1945	1944	1943	1942	1941	1940	1939	1938	1937	1936	1935	1934	1933	1932	1931	1930	1929	1928	1927	1926	1925	1924	1923	1922	1921	1920	1919	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909	1908	1907	1906	1905	1904	1903	1902	1901	1900	1899	1898	1897	1896	1895	1894	1893	1892	1891	1890	1889	1888	1887	1886	1885	1884	1883	1882	1881	1880	1879	1878	1877	1876	1875	1874	1873	1872	1871	1870	1869	1868	1867	1866	1865	1864	1863	1862	1861	1860	1859	1858	1857	1856	1855	1854	1853	1852	1851	1850	1849	1848	1847	1846	1845	1844	1843	1842	1841	1840	1839	1838	1837	1836	1835	1834	1833	1832	1831	1830	1829	1828	1827	1826	1825	1824	1823	1822	1821	1820	1819	1818	1817	1816	1815	1814	1813	1812	1811	1810	1809	1808	1807	1806	1805	1804	1803	1802	1801	1800	1799	1798	1797	1796	1795	1794	1793	1792	1791	1790	1789	1788	1787	1786	1785	1784	1783	1782	1781	1780	1779	1778	1777	1776	1775	1774	1773	1772	1771	1770	1769	1768	1767	1766	1765	1764	1763	1762	1761	1760	1759	1758	1757	1756	1755	1754	1753	1752	1751	1750	1749	1748	1747	1746	1745	1744	1743	1742	1741	1740	1739	1738	1737	1736	1735	1734	1733	1732	1731	1730	1729	1728	1727	1726	1725	1724	1723	1722	1721	1720	1719	1718	1717	1716	1715	1714	1713	1712	1711	1710	1709	1708	1707	1706	1705	1704	1703	1702	1701	1700	1699	1698	1697	1696	1695	1694	1693	1692	1691	1690	1689	1688	1687	1686	1685	1684	1683	1682	1681	1680	1679	1678	1677	1676	1675	1674	1673	1672	1671	1670	1669	1668	1667	1666	1665	1664	1663	1662	1661	1660	1659	1658	1657	1656	1655	1654	1653	1652	1651	1650	1649	1648	1647	1646	1645	1644	1643	1642	1641	1640	1639	1638	1637	1636	1635	1634	1633	1632	1631	1630	1629	1628	1627	1626	1625	1624	1623	1622	1621	1620	1619	1618	1617	1616	1615	1614	1613	1612	1611	1610	1609	1608	1607	1606	1605	1604	1603	1602	1601	1600	1599	1598	1597	1596	1595	1594	1593	1592	1591	1590	1589	1588	1587	1586	1585	1584	1583	1582	1581	1580	1579	1578	1577	1576	1575	1574	1573	1572	1571	1570	1569	1568	1567	1566	1565	1564	1563	1562	1561	1560	1559	1558	1557	1556	1555	1554	1553	1552	1551	1550	1549	1548	1547	1546	1545	1544	1543	1542	1541	1540	1539	1538	1537	1536	1535	1534	1533	1532	1531	1530	1529	1528	1527	1526	1525	1524	1523	1522	1521	1520	1519	1518	1517	1516	1515	1514	1513	1512	1511	1510	1509	1508	1507	1506	1505	1504	1503	1502	1501	1500	1499	1498	1497	1496	1495	1494	1493	1492	1491	1490	1489	1488	1487	1486	1485	1484	1483	1482	1481	1480	1479	1478	1477	1476	1475	1474	1473	1472	1471	1470	1469	1468	1467	1466	1465	1464	1463	1462	1461	1460	1459	1458	1457	1456	1455	1454	1453	1452	1451	1450	1449	1448	1447	1446	1445	1444	1443	1442	1441	1440	1439	1438	1437	1436	1435	1434	1433	1432	1431	1430	1429	1428	1427	1426	1425	1424	1423	1422	1421	1420	1419	1418	1417	1416	1415	1414	1413	1412	1411	1410	1409	1408	1407	1406	1405	1404	1403	1402	1401	1400	1399	1398	1397	1396	1395	1394	1393	1392	1391	1390	1389	1388	1387	1386	1385	1384	1383	1382	1381	1380	1379	1378	1377	1376	1375	1374	1373	1372	1371	1370	1369	1368	1367	1366	1365	1364	1363	1362	1361	1360	1359	1358	1357	1356	1355	1354	1353	1352	1351	1350	1349	1348	1347	1346	1345	1344	1343	1342	1341	1340	1339	1338	1337	1336	1335	1334	1333	1332	1331	1330	1329	1328	1327	1326	1325	1324	1323	1322	1321	1320	1319	1318	1317	1316	1315	1314	1313	1312	1311	1310	1309	1308	1307	1306	1305	1304	1303	1302	1301	1300	1299	1298	1297	1296	1295	1294	1293	1292	1291	1290	1289	1288	1287	1286	1285	1284	1283	1282	1281	1280	1279	1278	1277	1276	1275	1274	1273	1272	1271	1270	1269	1268	1267	1266	1265	1264	1263	1262	1261	1260	1259	1258	1257	1256	1255	1254	1253	1252	1251	1250	1249	1248	1247	1246	1245	1244	1243	1242	1241	1240	1239	1238	1237	1236	1235	1234	1233	1232	1231	1230	1229	1228	1227	1226	1225	1224	1223	1222	1221	1220	1219	1218	1217	1216	1215	1214	1213	1212	1211	1210	1209	1208	1207	1206	1205	1204	1203	1202	1201	1200	1199	1198	1197	1196	1195	1194	1193	1192	1191	1190	1189	1188	1187	1186	1185	1184	1183	1182	1181	1180	1179	1178	1177	1176	1175	1174	1173	1172	1171	1170	1169	1168	1167	1166	1165	1164	1163	1162	1161	1160	1159	1158	1157	1156	1155	1154	1153	1152	1151	1150	1149	1148	1147	1146	1145	1144	1143	1142	1141	1140	1139	1138	1137	1136	1135	1134	1133	1132	1131	1130	1129	1128	1127	1126	1125	1124	1123	1122	1121	1120	1119	1118	1117	1116	1115	1114	1113	1112	1111	1110	1109	1108	1107	1106	1105	1104	1103	1102	1101	1100	1099	1098	1097	1096	1095	1094	1093	1092	1091	1090	1089	1088	1087	1086	1085	1084	1083	1082	1081	1080	1079	1078	1077	1076	1075	1074	1073	1072	1071	1070	1069	1068	1067	1066	1065	1064	1063	1062	1061	1060	1059	1058	1057	1056	1055	1054	1053	1052	1051	1050	1049	1048	1047	1046	1045	1044	1043	1042	1041	1040	1039	1038	1037	1036	1035	1034	1033	1032	1031	1030	1029	1028	1027	1026	1025	1024	1023	1022	1021	1020	1019	1018	1017	1016	1015	1014	1013	1012	1011	1010	1009	1008	1007	1006	1005	1004	1003	1002	1001	1000	999	998	997	996	995	994	993	992	991	990	989	988	987	986	985	984	983	982	981	980	979	978	977	976	975	974	973	972	971	970	969	968	967	966	965	964	963	962	961	960	959	958	957	956	955	954	953	952	951	950	949	948	947	946	945	944	943	942	941	940	939	938	937	936	935	934	933	932	931	930	929	928	927	926	925	924	923	922	921	920	919	918	917	916	915	914	913	912	911	910	909	908	907	906	905	904	903	902	901	900	899	898	897	896	895	894	893	892	891	890	889	888	887	886	885	884	883	882	881	880	879	878	877	876	875	874	873	872	871	870	869	868	867	866	865	864	863	862	861	860	859	858	857	856	855	854	853	852	851	850	849	848	847	846	845	844	843	842	841	840	839	838	837	836	835	834	833	832	831	830	829	828	827	826	825	824	823	822	821	820	819	818	817	816	815	814	813	812	811	810	809	808	807	806	805	804	803	802	801	800	799	798	797	796	795	794	793	792	791	790	789	788	787	786	785	784	783	782	781	780	779	778	777	776	775	774	773	772	771	770	769	768	767	766	765	764	763	762	761	760	759	758	757	756	755	754	753	752	751	750	749	748	747	746	745	744	743	742	741	740	739	738	737	736	735	734	733	732	731	730	729	728	727	726	725	724	723	722	721	720	719	718	717	716	715	714	713	712	711	710	709	708	707	706	705	704	703	702	701	700	699	698	697	696	695	694	693	692	691	690	689	688	687	686	685	684	683	682	681	680	679	678	677	676	675	674	673	672	671	670	669	668	667	666	665	664	663	662	661	660	659	658	657	656	655	654	653	652	651	650	649	648	647	646	645	644	643	642	641	640	639	638	637	636	635	634	633	632	631	630	629	628	627	626	625	624	623	622	621	620	619	618	617	616	615	614	613	612	611	610	609	608	607	606	605	604	603	602	601	600	599	598	597	596	595	594	593	592	591</
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Bosnian adversaries accept UN's plan to divide republic

By Laura Silber in Geneva

INTERNATIONAL mediators yesterday achieved a breakthrough when Bosnian President Alija Izetbegovic caved in to intense pressure and approved the division of Bosnia into three republics as part of a settlement to end the 16-month war.

On the fourth day of negotiations in Geneva, peace envoys said they had arranged an agreement between Mr Izetbegovic and his Serb and Croat adversaries.

Mr John Mills, the UN's Geneva talks spokesman, said the three main adversaries of the Bosnian crisis had backed the "constitutional agreement for the union of republics of Bosnia and Herzegovina".

Mr Slobodan Milosevic, Serbian president, welcomed the agree-

ment. "It completely affirms Srpska Republika," he said in reference to the self-styled Serbian state which covers 70 per cent of Bosnia.

The agreement appeared to favour the Serb and Croat plan to form their own ethnic mini-states. At the same time, it signalled the defeat of the Bosnian government platform of preserving a federal, united state.

Mr Mills said the parties would meet over the weekend to hammer out the details of the plan. The three sides have yet to decide on the maps delineating the territory of the three ethnic republics. Mr Mirko Pejanovic, a Serbian member of the Bosnian leadership, said the map negotiations would be the "most difficult".

Mr Izetbegovic, who has consistently rejected the ethnic parti-

tion of Bosnia, left an all-party meeting without comment. He is likely to play down the significance of the agreement.

Asked if the deal meant ethnic division, Mr Pejanovic said: "It is a heavy price. But it is one we have to pay if there is to be peace."

A UN official said the agreement had not been changed substantially from the proposal submitted by Lord Owen and Mr Thorvald Stoltenberg, the international mediators. Croatian President Franjo Tudjman, who has attended the peace talks along with Mr Milosevic, yesterday welcomed the agreement.

The deal gives a weak central government control over foreign affairs and international trade.

Mr Kasim Trnka, a Bosnian constitutional expert, dismissed the plan as "not even a con-

federation - it is a carve-up".

Mr Mills said the agreement was reached "after intensive discussion on a number of drafts, with amendments agreed by all three parties".

As the negotiations entered their fourth day, one Spanish soldier was killed and 17 wounded when shells pounded a UN barracks in Jablanica, south-west of Sarajevo.

The three commanders of the warring parties met yesterday at Sarajevo airport and agreed to implement a ceasefire, following orders from their political leaders to cease hostilities.

In a letter yesterday to Mr Boutros Boutros Ghali, UN secretary-general, Mr Karadzic appeared to concede that his troops were responsible for an earlier shelling of a UN base in Sarajevo.

Electricity regulator calls for reform of power market

By Michael Smith

THE electricity industry regulator, Professor Stephen Littlechild, is to decide this year on whether to refer the UK's two main generators to the Monopolies and Mergers Commission after calling yesterday for significant reform in the power trading market.

His deliberations on the monopolies referral will cast doubt on ministers' plans to raise £5.5bn from privatisation sales in 1994-5. The government would probably be forced to postpone plans to sell the state's 40 per cent stakes in PowerGen and National Power, worth £3bn, next year if the companies were referred.

Prof Littlechild's move to bring forward a monopolies decision, previously expected in 1995, follows a two-month inquiry into price rises in the electricity wholesale pool where all power in England and Wales is traded.

He said the generators' ability to raise prices, a primary cause of the pool increases, was a matter of widespread concern.

Prof Littlechild criticised the

pool's pricing mechanism. He said it should be simplified and more attention should be paid to customers' needs. The pool needed to think "less about central planning and more in terms of what the market needs to work effectively". He also urged changes in responsibilities between the pool and the National Grid, and backed proposals which would allow large customers to bypass the pool and buy directly from generators.

This year's pool selling prices, up 20 per cent on last year, have hit hard the more than 1,000 large industrial customers, such as Imperial Chemical Industries, which buy directly from the pool.

Domestic and commercial users have escaped unscathed because they are covered by long-term "bedding" contracts between electricity companies. Prof Littlechild warned yesterday that their prices would be affected in future as new contracts would take account of pool price changes.

ICI yesterday criticised the regulator for "taking no firm action" to correct problems he had identified or compensate those com-

panies which had paid for the price deficiencies. "His conclusions are limited to exhortations to others to consider action, coupled with veiled threats of a reference to the Monopolies and Mergers Commission," the company said.

In his report Prof Littlechild said the size of the increase was more attributable to National Power than PowerGen.

National Power said yesterday it was not easy to defend a rising price during a recession but said its prices were not excessive.

The company said pool customers had been enjoying artificially low prices for some time. Most of those customers now suffering were those who previously enjoyed subsidies.

PowerGen said pool prices were not too high when judged against its need to provide a return on capital and sustain long-term investment.

Mrs Margaret Thompson, pool chief executive, said an internal review of operations was already making progress in areas flagged by the regulator including simplifying trading arrangements.

Major firm on fuel VAT

Continued from Page 1

Conservative voters in Christchurch rekindling speculation about a possible challenge to Mr Major's leadership, Mr Douglas Hurd, the foreign secretary, led a concerted attempt to emphasise that economic revival would soon bring a recovery in the prime minister's fortunes. Mr Hurd admitted the government needed to do better in the way it dealt with the difficult questions: "We have to listen, to decide, to persuade - and we have to improve our performance on all three."

Mr Ashdown said that by giving his party such a success Christchurch had let out "a shout of rage" for the people of Britain about the government's policies.

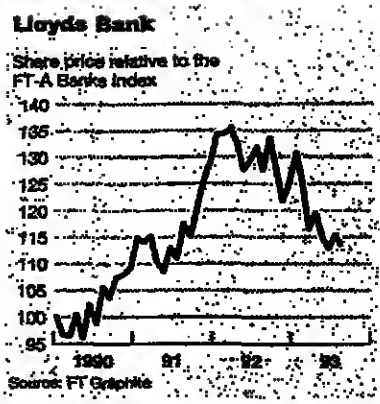
It was not simply another one-off by-election victory, he insisted. "If the Conservatives continue to do what they have done already today, which is to treat this with some complacency, not to say contempt... they will seriously underestimate the message of this by-election."

He echoed the words of Mrs Diana Maddock, the winning candidate, to the prime minister: "Change your policies or get ready to change your job."

A faulty mechanism

THE LEX COLUMN

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The ERM is clinging to life, but there can only be limited hope of remission. There have long been only two ways of laying European currency tensions to rest. Either Germany changes its mind on interest rates, which seems ever more remote given the weakness of its bond market and of the D-mark against the dollar and the yen, or France leaves the system so that it can cut interest rates sharply enough to revive its recession-bound economy. Perhaps the political capital at stake is too great for European governments to grasp this nettle. Perhaps they are simply too stunned by the extent of the crisis that has enveloped the system.

Technical adjustments like a unilateral upward revaluation of the D-Mark or a widening of bands within the system could never be anything other than a temporary solution. As long as the interest rate problem is not addressed the markets will quickly resume their attack. As this thought sinks in, those involved must turn their attention to who receives the blame. It would be some consolation for France if the ERM failed because Germany's fears for its own money supply forced it to withdraw intervention support for the franc.

Indeed the Bundesbank looks to have lost in terms of credibility. Its failure to appreciate the international consequences of Thursday's refusal to cut its discount rate appears naive. Conflicting statements by Bundesbank council members yesterday over the conduct of day-to-day money market operations underline the disarray at the top. Independent central banks are fine as long as they are perceived to be in control. Markets have grounds to worry when they are not.

Lloyds Bank

Share price relative to the FT-A Europe index

cuts rates substantially, so would the UK. Lower rates might tempt more cash out of deposits and into equities, yet the demanding rating of the market will make upward progress difficult.

Besides, any fall in rates would only offset an effective monetary tightening from the exchange rate. Overall, the pace of economic growth might not be much affected, though its composition would be tilted away from exports towards domestic consumption. If the shift became pronounced, enthusiasm for overseas earners and export manufacturers would wane, while dowdy domestic sectors like stores might once again find a place in the sun.

UK equities

The ERM's travails doubtless provoke smug satisfaction within UK government circles. Yet while ministers are struggling desperately with the urge to yell "I told you so", they might also have an eye to sterling's appreciation. As the CBI warned this week, a rising currency will damp down export prospects - particularly if the ERM finally disintegrates and some currencies fall sharply.

The equity market, however, has been buoyed by the notion that UK interest rates are on the way down regardless. Should Germany change tack and cut rates to save the ERM, Britain would follow to slow sterling's rise. If France leaves the system and

much more like an ordinary bank and one with a strategic problem to boot. Certainly the stock market seems less impressed by Mr Brian Pitman's magic touch as chief executive. The shares fell over 4 per cent yesterday even though Lloyds reported a net return on shareholders' equity of 21.3 per cent. If Mr Pitman really believes future growth opportunities will be limited by a non-inflationary environment, he should be rushing to pay surplus cash back. Ambivalence on this score suggests he is still tempted by the acquisition route to growth. A weak share price will not make that approach any easier.

UK electricity

Students of conspiracy theory and watchers of smoke-filled rooms will be busy deconstructing Professor Stephen Littlechild's threats to the electricity generators this weekend. The tasty tone of the regulator's comments suggests he is losing patience with the generators which, despite four investigations, have continued to push prices up in the "spot" electricity pool. If Offer's investigation concludes that the generators' margins are too high, an investigation by the Monopolies and Mergers Commission would naturally follow.

But it may be that the generators would like to provoke Offer into a decision on a possible MMC referral while the government still holds 40 per cent stakes in both companies. The shares were due to be sold next spring to help fund the PSBR. Any MMC referral would delay that and might damage the value of the holdings. Pressure from the Treasury to avoid a referral would thus be intense, as the generators are doubtless aware.

Whatever the politics, the two most likely grounds for referral to the MMC are charges of profiteering or market power. Evidence for excess profits will have to wait for the results of Offer's investigation, though the upward drift in prices is disturbing. On market power there is a clear case for referral. While the generators' overall market share is falling, they are losing out to nuclear power and shortly to new gas-fired plant, both of which operate as "base-load" electricity. The marginal segment of the market, which determines the price, remains firmly in the hands of the companies. Whether that will be enough to call the government's hand in such a high-rolling game of political poker remains to be seen.

Future of ERM hangs in the balance

Continued from Page 1

Monetary officials observed that Bundesbank interventions on behalf of the franc risked an inflationary bloating of Germany's money supply, as during last September's ERM crisis which led to the forced exit of sterling and the lira.

Other officials said "all options" for saving the ERM were being discussed by monetary authorities in the EC. These included proposals for widening the bands of fluctuation between the "strong" EC currencies, but

these were not on the "front-burner".

Mr Pedro Solbes, Spain's finance minister, said he favoured some contact between the ERM nations this weekend. He said: "France and Germany have to come up with a solution to the situation since they're the ones who have things to resolve."

But Mr Jean-Luc Dehaene, the Belgian prime minister, said there had been no call from any EC member state for a meeting of the monetary committee, and added that Belgium as current EC president would not take

the initiative in calling one.

In the UK, Mr Eddie George, the Bank of England governor, briefed Mr Kenneth Clarke, the chancellor, on the crisis.

On the Paris bourse, investors pushed up share prices by 2.5 per cent to their highest level for three years, in the belief an imminent untangling of the franc from the D-Mark would allow an interest rate cut to boost growth prospects.

The turbulence in the ERM led to substantial inflows into the dollar and gold. The dollar closed in London at \$1.7405, up more

than half a pfennig on the day, and its highest level for 23 months. Its strength may weaken the chances of a cut in German interest rates, because a weaker D-Mark would have inflationary implications for Germany.

Gold closed at \$406.40 an ounce, a fresh high since the Gulf War in January 1991.

In London, speculation about easier borrowing conditions across Europe pushed the FTSE 100 share index up 8.9 points to 2,926.5 for a 98.8 gain on the week. UK gilts and French government bonds closed 1 point up.

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FT WORLD WEATHER

Europe today

An area of high pressure will build over France in the wake of a cold front moving over central Europe. As a result, north-western Europe will have sunny intervals. A few showers will form, especially in northern regions. It will be cloudy with outbreaks of rain over Scotland and Ireland. Readings will be around 18C. During the afternoon and evening, the rain will spread across England. Thunderstorms will occur in the very warm and moist air ahead of a cold front in Poland and the eastern Alps. A series of depressions will bring local heavy rain or showers with the risk of thunder to Scandinavia. Temperatures will rise to 17C-22C. In the Mediterranean, it will continue mostly sunny and very warm.

Five-day forecast

Most of Scotland, Ireland and Scandinavia will continue to be unsettled and cool. Elsewhere in north-western Europe there will be sunny periods, sometimes interspersed with local thundery showers. Readings will be around 21C. Central Europe will be sunnier and warmer, but at some locations thunderstorms will occur. Generally sunny over southern and south-eastern Europe. Afternoon readings will be above 30C.

TODAY'S TEMPERATURES

Abu Dhabi	fair	32	Chicago	thund	30	Faro	sun	29	Majorca	fair	33	Rangoon	drizl	29
Accra	cloudy	28	Cologne	fair	20	Frankfurt	show	23	Malta	sun	35	Rijad	fair	14
Algiers	sun	35	Copenhagen	show	19	Geneva	show	24	Manchester	cloudy	18	Riyadh	sun	43
Amsterdam	show	19	Dakar	cloudy	30	Hamburg	show	20	Marina	show	31	Rome	fair	31
Athens	sun	34	Dallas	sun	40	Helsinki	fair	22	Melbourne	show	23	Saigon	show	28
Bangkok	rain	33	Darwin	fair	30	Hong Kong	rain	31	Medina City	show	23	Singapore	rain	28
Barcelona	sun	28	Dhaka	fair	35	Honolulu	fair	31	Miami	thund	31	Stockholm	thund	20
Beijing	show	30	Dubai	fair	43	Isle of Man	rain	17	Montreal	fair	20	Taipei	show	23
Belfast	rain	17	Dublin	drizl	16	Jersey	cloudy	22	Moscow	show	20	Tokyo	thund	28
Belgrade	sun	35	Edinburgh	show	19	Karachi	cloudy	22	Mumbai	thund	21	Toronto	fair	27
						Kuwait	sun	47	Nassau	sun	33	Ulaanbaatar	fair	21
						La Paz	show	28	New York	thund	27	Vancouver	fair	21
						Las Palmas	fair	28	Nice	sun	28	Venice	thund	30
						London	sun	34	Nicosia	sun	34	Vienna	thund	29
						Los Angeles	sun	31	Oslo	fair	21	Warsaw	thund	30
						Lyon	show	25	Paris	fair	22	Washington	fair	30
						Madrid	show	25	Perth	fair	18	Wellington	fair	20
									Prague	show	22	Whitang	show	23
									Rio de Janeiro	show	22	Zurich	show	23

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A journey along Europe's fault line

Edward Mortimer travelled through the linguistic borderlands between Romance and Teutonic and found the scars of history everywhere

THE IDEA first came to me 10 years ago, on the way back from a holiday in Italy. We found ourselves driving through a series of countries or regions - Switzerland, Alsace, Luxembourg, Belgium - where Romance languages (mainly French) overlap with Teutonic ones (German and Dutch). It occurred to me that this was the great historic and cultural divide in western Europe.

On one side of us were lands where the Roman empire had put down such deep roots that, 1,500 years after its disappearance, people still spoke languages derived from Latin. On the other were the linguistic descendants of those "barbarian" tribes which were never fully Romanised, but stuck to their Germanic speech.

I remembered my old headmaster, Robert Birley, telling us about the Treaty of Verdun in 843AD, when Charlemagne's empire was divided between his three grandsons. Charles the Bald got the west, which became France; Louis "the German" got the lands east of the Rhine; and the eldest, Lothar, got a long, thin middle kingdom stretching from Friesland to the border of Calabria. "And you know," Birley would say, swinging his spectacles with excitement, "the whole of subsequent European history can be seen as a struggle between the heirs of Charles and Louis to control the kingdom of Lothar."

The kingdom of Lothar: the great battleground of western Europe, but also its richest, most productive region - today's "golden banana". The clash of cultures, I thought, had been both destructive and creative on a dazzling scale. The land was soaked in blood, but from it sprang cathedrals, cloth halls, colleges, chateaux.

There is, after all, something

stimulating about cultural hybridity - perhaps something quintessentially European. Certainly this is the region where "Europe" has aroused the greatest enthusiasm: it offers peaceful exchange instead of violent conflict, and makes dilemmas about national identity less agonising, because less absolute.

I formed a plan to explore the region a little more systematically: to attempt a journey along the fault line, observing in greater detail both its historical residue (buildings, statues, inscriptions) and the way it is experienced by those who live on it today. This summer a sabbatical leave from the FT gave me the chance to do it.

Leaving England on May 28, I started at Dunkirk (an old Flemish port, now the northernmost city in France) and for the next five weeks worked my way south and east along the language border, travelling a short distance each day, usually by bus or train, sometimes on foot, staying in pensions or cheap hotels, or quite often - unashamedly - in youth hostels.

(There is in fact no age limit, other than one's own tolerance for dormitory life.)

My proudest moment came when I strode into an Alsatian village, weighed down by my rucksack, and made friends with a resident who turned out to be the German writer and comedian, Philipp Sontag. I asked if there was a path through the forest to the next village, and he consulted his neighbour, introducing me with the words "hier ist ein englischer Wanderer."

I did not quite fulfil my ambition of carrying on "until I meet my first Slav." Time ran out on me in South Tyrol/Alto Adige, the predominantly German-speaking province of northern Italy. But I did reach Innsbruck/San Candido, founded as a Benedictine monastery in the 8th century "to Christianise the Slavs."



Evidently they were there then, even if later they were pushed east.

From the summit of Mount Helim (Monte Elmo), I had a fine view of the river Drava flowing down through Austria towards Slovenia, Croatia and the Danube; and also of the Italian-Austrian frontier, running eastward along the top of the Carnic Alps. From there on, it coincides with the language border.

As the crow flies, the distance from Dunkirk to Innsbruck is 340 miles. The language border, anything but crow-like, is probably double that. Yet in remarkably few places between those two points does it coincide with a national frontier. Perhaps the only stretch where it incontrovertibly does so is between the Matterhorn and the Corno Gries, where the high Alps

form a natural barrier between Italy and a purely German-speaking part of Switzerland. To the west French is spoken on both sides of the frontier, and to the east Italian.

The other obvious exception was the short stretch right at the beginning of my route, between Dunkirk and Lille. Here France marches directly with Flanders, the Dutch-speaking region of Belgium. But even that statement has at once to be qualified: because the land on the French side of the frontier is also Flanders. True, you do not hear the Flemish dialect spoken there much these days, but almost any middle-aged native will tell you that his parents spoke it, even if he himself no longer does.

In other words, when the frontier was drawn people spoke the same

language on both sides, but over time the French language has imposed itself on the French side. Three hundred miles further on, in Alsace, I observed the same process at work, but at an earlier stage. There you cannot help hearing German spoken - or rather the Alsatian dialect, "related to German," as some Alsatians will tell you.

But the people speaking it are almost invariably over 60. Their children understand it, and may reply in kind if spoken to in it, but feel more natural speaking French among themselves. Which means, of course, that the grandchildren are usually not learning it at all.

Thus the French state, with its firm insistence on a single national language and culture, is gradually pushing the language border north

and east. In another generation it should fully coincide with the state frontier. If the process has further to go in Alsace than in French Flanders it is because for nearly half a century, between 1870 and 1918, Alsace and northern Lorraine were incorporated into Germany, and their inhabitants firmly taught to think of themselves as German.

That experience was briefly but much more brutally repeated in 1940-44. Ironically enough, this second dose of Germanisation, under Nazi rule, may have sealed the fate of Alsace's German cultural identity. The Alsatians emerged from it doubly traumatised. In many ways being part of the Third Reich was worse than being merely occupied: Alsatians were liable, for instance, to conscription into the Reichswehr,

sometimes even into SS units.

But once liberated and reunited with France they found themselves tainted with guilt by association, when not accused of direct complicity in Nazi crimes. Nothing could have been more politically incorrect, in post-war France, than to declare oneself German. Hence the insistence that the Alsatian dialect is not actually German, only related to it. And hence the indignation which drove the father of a friend of mine - a retired village baker - to protest formally to his MP when a well-known French actress opted recently, on television, that the Alsatians were "really German."

The contrast with South Tyrol is striking. There too a historically

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The Long View / Barry Riley

Not so well-endowed

WHY ON earth would you sign a savings contract at the same time you are borrowing money? It sounds like a contradiction in terms: yet, about 70 per cent of British homeowners do this when they take out a mortgage. In most cases, they combine the loan with an endowment policy, a long-term savings contract provided by life companies.

These endowment mortgages have been threatened several times already in the past 10 years, for instance by the withdrawal of tax relief on life premiums in 1984 and, more recently, by cuts in bonuses on endowment contracts. Now, they face their biggest and perhaps toughest challenge: the Treasury has decreed that banks and building societies must make a "hard" disclosure to customers of the cash commissions they earn on these plans.

Once, endowment mortgages made very good sense for those able to pay a little bit more each month. Maturing 25-year with-profits plans have proved extremely profitable, earning about 12.5 per cent a year compared with average inflation of 9 per cent. But the attraction has been eroded seriously. The endowment mortgage today reflects mainly a marketing, rather than an investment, opportunity: when Mr Prospect ventures into a mortgage office, he is uniquely open to sales patter based on the premise that an endowment mortgage is "normal" and he should have one, too.

What is the theory behind the endowment mortgage? It is all a matter of a comparison with a repayment mortgage, which is designed to repay the loan through level monthly instalments. At the beginning, the instalments consist almost entirely of interest, with only small amounts repaid; by the end of the term, the reverse is true. Under this structure, the monthly amounts channelled into repaying the principal are, effectively, earning interest at the mortgage rate. But suppose, instead, that they were invested sepa-

ately at a higher rate: you would be better off than before. And if the margin were good enough, you could accumulate enough over, say, 25 years to repay the original loan in one lump at maturity, perhaps leaving a surplus.

In the 1960s, these sums worked out extremely well. The mortgage rate was held artificially low by building society cartel arrangements (at about 7 per cent) and there was unlimited income tax relief on interest, with a standard rate of 30 per cent and higher rates of anything up to 75 per cent. On the savings side, life premiums received a subsidy of half the standard rate of income tax. The money could be invested prudently in gilts or company loan stocks earning 2 or 3 percentage points over the typical mortgage rate.

By the 1970s, inflation was posing a threat to real returns on the savings side although this was more than offset by the negative real cost of mortgage interest (which in 1975 was about minus 20 per cent). There was a gap of up to 8 percentage points between the long gilt yield and the net-of-tax mortgage rate. Endowment mortgage plans began to accumulate big profits.

Then came Thatcherism, and deregulation. In the 1980s, the mortgage rate shot up and gilt yields fell. The impact of the £25,000 loan limit for mortgage interest tax relief, imposed in 1974 and increased to only £50,000 in 1983, began to become more serious as house prices surged upwards (today's average new mortgage is nearly £50,000). Life companies shifted their investment strategy and turned to equities to provide the high returns essential to pay the required bonuses. Riskier assumptions were made. Endowment mortgages thereby ceased to represent a sensible exploitation of a reasonably predictable interest differential and, instead, became a stock market speculation.

For several years, the gamble paid off. But a warning of how it could all go wrong came with the notorious home income schemes, which were back-to-front endowment mortgages sold in the

1980s. Pensioners would take out loans secured on their houses and put part of the proceeds into investment bonds, which would repay the interest and debt out of stock dividends and capital gains. But loan rates soared and the stock market crashed in 1987. Thousands of pensioners now dread eviction.

The consequences for endowment mortgages will not be quite so dire: the worst likely to happen is that they will be asked to raise the monthly payments into their endowments. The increases might be substantial in relation to the endowment premiums alone but, compared with the total outgoings including interest, they should only be modest. All the same, it is highly unsatisfactory that buyers have paid large commissions for being put into contracts which may prove of doubtful value.

Meanwhile, the arithmetic of endowment mortgages continues to get worse. From next April, the maximum monthly tax relief on mortgage interest will shrink to about £40 a borrower (relief at 20 per cent on a £20,000 loan). The gap between the mortgage rate and the long gilt yield is just about nil, and stock market returns have become more uncertain.

Another way of looking at the whole question is to take account of the role of inflation in eroding mortgage debt. If you took out a 25-year, £20,000 loan in 1968, the very large sum in those days - it will now seem very small at maturity because it is the equivalent of only £2,310 in 1993 money. It has been easy to accumulate that modest real sum in a parallel savings plan. But if future inflation is only 2 or 3 per cent, instead of 9 per cent, your savings will have to work much harder.

Hard commission disclosure will provide a good opportunity for banks and building societies to look again at the viability of endowment mortgages. But it would be more encouraging if the interests of the customers, rather than regulatory embarrassment, were to trigger the re-think.

Another blow for endowments? - Page IV

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MARKETS

That's the way the money goes

By Tony Jackson

IT'S ONLY money. Half the governments of Europe spent the week hurling vast sums at their collapsing currencies. Merck, the US drug giant, spent \$60m buying a company which puts prescriptions in the mail. Reuters decided to hand \$350m back to its shareholders, on the grounds that if it kept the cash it might do something silly with it. All in all, one sees Reuters' point.

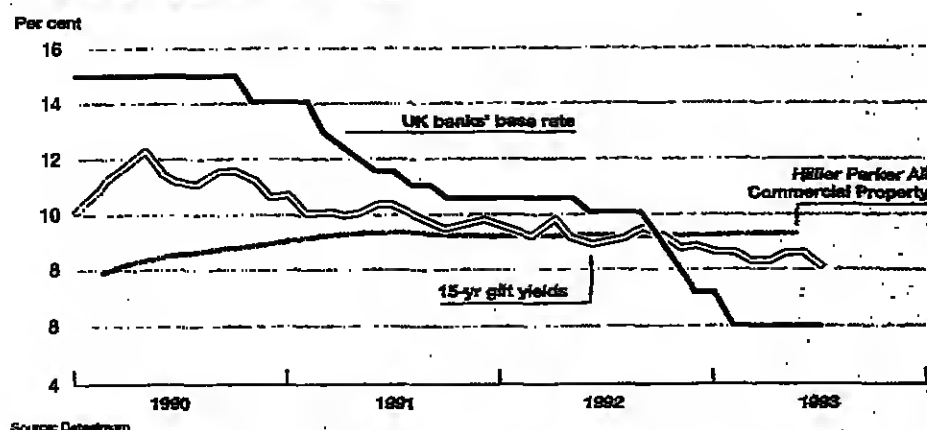
Undeniably, cash is not what it was. Not in the UK, at any rate. Bill Smith, head of research at BZW, observes that the return you get on cash these days is the lowest for a generation. It is also lower than the return on gilts, equities or property. This helps to explain why unit trust sales in this year's second quarter were the second highest on record.

Professional investors tend to get slightly twitchy at this point, rather as they do when taxi-drivers start buying gold. If the private punter reckons that the market can only go up, it is usually time to sell. It

HIGHLIGHTS OF THE WEEK

	Price	Change	1993	1993	
	Ytd	on week	High	Low	
FT-SE 100 Index	2926.5	+98.8	2957.3	2737.6	Interest rate/currency pressures
FT-SE Mid 250 Index	3306.5	+103.6	3306.5	2876.3	Buying of recovery stocks
Argyll	519	+28	407	287	Food retailers rally
Cable & Wireless	611	+46	826	669	Hong Kong Telecom presentations
Guinness	458	+11	518	437	LVMH profits warning
ICI	668	+17	710	608	US buying on results
Lex Service	407	+17	412	281	Purchase of motor division
Merrydown	265	-19	300	253	Profits fall
Peabody	468	+32	484	354	Demerger plans
Pearl Holdings	261	+12	262	138	Manchester Ship Canal deal
Redland	515	+38	521	402	Optimism over German interests
Savem Trent	502	+34	533	439	Yield attractions of utilities
Unigate	364	+23	375	300	Sale of vehicle subsidiary
Wellcome	687	+49	993	600	Deal with Warner-Lambert
Zeneca	634 1/2	+21 1/2	645 1/2	583	Good results

The dwindling power of cash



of view, the beauty of it all is that the collapse of the ERM would help UK corporate profits whatever the UK government did in response. The immediate result would be a fall in Continental interest rates. Germany presumably excepted. That would stimulate the Continental economies, thereby improving the prospects for UK exporters. This is something of a live topic: according to the CBI this week, exports to the Continent are proving so sticky that the whole UK recovery is at risk. Of course, if Clarke followed the CBI's other piece of advice and cut UK rates, so much the better. From the market's point of view, there is only one possible way the government could get it wrong: if an ERM collapse sent sterling through the roof and Clarke still refused to cut rates, in spite of the damage to exports. But he

wouldn't be so silly. Would he? Let us assume that the market is right, and that UK rates are due for another fall. That makes even more sense of Reuters' decision this week to give \$350m back to shareholders. In fact, the money is to be used in buying back Reuters' own shares, rather than simply handing out as a one-off dividend payment. But as Reuters explained, that was simply a means of giving shareholders with a high tax rate the option of leaving their money where it is.

Implicitly, though, Reuters is saying that with interest rates where they are, spare cash is better returned to the owners than left to burn a hole in managers' pockets. Besides, the likely return through investing that cash in the business is likely to be lower in the stony 1990s than it was in the free-wheeling 1980s. Other companies are in the same dilemma: in particular, drug groups like Glaxo and Wellcome, which have steep cash mountains and a steadily worsening commercial outlook. As it happened, their response to that outlook was also on display this week. Glaxo and Wellcome formed a grand triple alliance with the US drug and consumer group Warner-Lambert whereby they hand over to Warner-Lambert the job of selling any of their drugs which are converted from prescription medicines to consumer products. This is specifically in response to the efforts of Hillary Clinton and her counterparts around the globe to control their drug bills. When Glaxo's Zantac, the world's highest-selling drug, is prescribed for ulcers, it is mostly paid for by govern-

ments. Come the day that it is sold as a patent medicine for indigestion and hangovers, it will be paid for by the sufferers themselves.

But the troubles of the drug industry are perhaps too grievous a topic to dwell on, as is the plight of those who bought Glaxo shares at the top of the market. Better to turn to a bit of light relief, from the somewhat surprising source of corporate Germany. This is the setting for quite the most diverting boardroom shocker to have surfaced in years: Volkswagen versus General Motors, or The Case of the Exiting Basque. This hinges, for those who missed earlier episodes, on the behaviour of the exotically named Jose Ignacio López de Arriortúa, an ex-GM top man who has seriously annoyed Detroit by defecting to Volkswagen and - GM says - taking secret documents with him.

The row over this has been bad-tempered from the outset. For connoisseurs of the Higher Childishness, however, this week's exchanges had classic status. Volkswagen's boss, Ferdinand Piëch, said GM had planted its secrets on VW as a means of getting at López. The whole thing, he implied, was a dirty American plot to do down German industry. Opel, GM's German subsidiary, rejoined that Piëch was not one to talk. As an Austrian, he does not even have a German passport. So there.

Almost unnoticed in the hubbub, GM announced on Thursday that it had swung from loss into profit in the second quarter, and its shares went up. But that, as the obsessed combatants would doubtless say, was only money as well.

Serious Money

The seductive view from the top

By Philip Coggan, personal finance editor

PRIVATE investors have an unfortunate tendency to buy shares at the top of the market. So news that unit trust sales are close to levels last attained during the third quarter of 1987 (just before the Crash) makes the cynical observer rather uneasy.

A survey from Save & Prosper illustrates the problem. S&P found that in June 1991, when the FT-SE 100 index was around 2,500, only 28 per cent of private investors surveyed thought that it was a good time to invest in stocks and shares. In June 1992, with Footsie at 2,700, the figure was 25 per cent. The same survey conducted this year, when the index was around 2,850, found that 54 per cent of investors believed it was a good time to buy stocks and shares.

You could argue that investors in June 1992 were fairly shrewd, in that the market fell sharply over the summer reaching its nadir, of around 2,280, just before sterling's devaluation. On the other hand, I wonder whether private investors would have felt confident about the prospects for shares on Black Wednesday, since when the market has rallied substantially.

Of course, it is inevitable that when share prices are low, investors will be depressed - their depression is what makes prices low in the first place.

And the flood of demand which occurs when private investors enter the share market in numbers helps indices to reach new peaks - look at the US, where interest rates of 3 per cent or so have caused individuals to swap deposits for shares.

Nevertheless, the shrewd investor will try to avoid the herd mentality. Just as, when UK interest rates were 15 per cent, it was tempting, but wrong, to hold all your money in cash and forget equities, it would now be foolish to have

all your money in shares at a time, when the market, in terms of price-earnings ratios and dividend yields, looks expensive in historical terms. A balance of cash, gilts and shares is the answer.

Foreign & Colonial's latest investment trust is an unusual animal. For a start, it is the first split capital trust launched by F&C, which has traditionally been associated with the "keep it simple" school of trust management. Secondly, although the trust is investing in utilities, it is concentrating on a particularly recondite part of the sector - the former statutory water companies.

These groups are not the same as the privatised water companies such as Severn Trent. The "statutory companies" are responsible purely for water supply, not for sewage; many date back to the 19th century, and they were so named because, until recently, their profits and dividends were set by statute.

For many years they were a neglected corner of the stock market until the French water companies started to buy stakes in the late 1980s. Share prices shot ahead, and did so again when statutory controls were lifted - according to F&C, the dividend of the Chester company, set at 3p for many years, is now 22p per share.

One particular private investor, the Australian-based Duncan Saville, was clever enough to profit from all this and became one of the largest holders of water supply stocks. He approached F&C with the idea of swapping his holdings into investment trust shares - and the idea for the trust was born. Its name will be the Special Utilities Investment Trust, or SUIT for short.

Depending on how much the trust raises, between 44 and 80

per cent of the portfolio will be in water supply stocks. The remainder will be in other utilities such as electricity, gas or telecommunications.

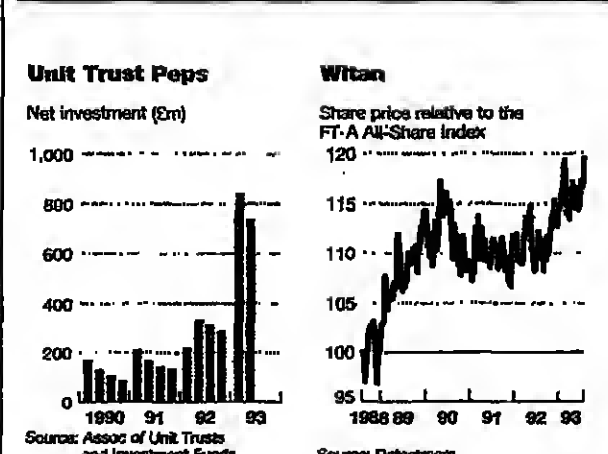
F&C argues that the water supply companies are attractive investments. They supply water to nearly a quarter of the population, have lower capital expenditure plans, high cash generation and a good relationship with the regulator. The income shares will be entitled to all the fund's income and the first 80p of assets, when the trust is wound up in 10 years' time. They will be offered at 60p each and will have an initial dividend yield of 7.5 per cent. If dividends grow at 5 per cent per year, the expected gross redemption yield will be 8.4 per cent.

The capital shares, sold at 40p each, will get no income but will get all the assets of the trust after the income shares have been repaid. If the assets grow at 5 per cent per year, the expected gross redemption yield will be 8.5 per cent. However, it is worth noting that if the trust's assets do not grow at all, investors will lose money. Saville will be taking capital shares for his holding.

There will also be package units (at 100p) which can be converted into one income and one capital share at any time. The initial yield will be 4.7 per cent, and the minimum investment for package investors is £500. All the various shares are available.

Potential investors should realise this is a highly specialised trust, the investments of which will be concentrated in a politically sensitive and (perhaps though it sounds) illiquid sector. It is certainly not a fund for the first time investor, who would get a much better spread from F&C's flagship investment trust. But larger investors might find the income shares attractive as part of a wider income-seeking portfolio.

AT A GLANCE



Peps lead unit trust surge

UNIT trusts had a bumper second quarter, with net sales reaching nearly £2.5bn, higher than in any period since the third quarter of 1987. Private investors have returned to the sector, buying a net £1.98bn of trusts in the first half of 1993. Peps were particularly popular, with net sales of nearly £1.8bn in the first half. Total funds managed by the industry have reached a record £76.4bn.

Witan reduces in-house bias

Witan Investment Company, the investment trust managed by Henderson Touche Parnett, found an ingenious way of reducing the "in-house" bias of its investment policy this week. It raised a £26.25m bond, convertible into the shares of three other Henderson trusts (Electric and General, Greenfair and Lowland). It also sold an 8.2 per cent stake in Henderson itself. Previously in-house investments formed more than £100m of Witan's £280m portfolio. According to Microcap, the trust was 12th out of 19 in the international general sector over the five years to July 1 and 11th out of 19 over 10 years.

Three BES offers

THE Matrix Stock Market business expansion scheme, sponsored by Matrix Securities and aimed at providing student accommodation for Nottingham University, has a minimum exit price after five years of 75p for every 100p invested with a variable amount linked to the FT-SE 100 index. The scheme has an automatic lock-in at 60 per cent growth in the Footsie and again at 90 per cent.

Accumulus King's is an arranged exit cash-backed scheme offering 120p after five years per every 100p invested, equating to a 13.9 per cent annual return for a higher-rate taxpayer and 9.4 per cent for a lower rate taxpayer. The BES, sponsored by Terrace Hill Capital, will buy property from King's College, Cambridge to be let as assured tenancies.

Queen Mary and Westfield College Residences, sponsored by Downing Corporate Finance, has an arranged exit price of 127p per every 100p invested but has cash backing for only 25 per cent of the buyback obligation, according to BES. The minimum investment for all the schemes is £2,000.

A guide to gilts

National Savings has issued a pamphlet explaining how to buy gilts on the National Savings stock register. It explains the main factors to bear in mind when buying gilts, such as prices, interest rates and yields as well as the tax position and how to sell. The pamphlet is available at post offices.

Personal pension information

The Department of Social Security has produced a new leaflet on personal pensions which gives some of the basic information on this complex area. The leaflet "Thinking about a personal pension?" is available from Citizens Advice Bureaux or free by phone on 0345-825522.

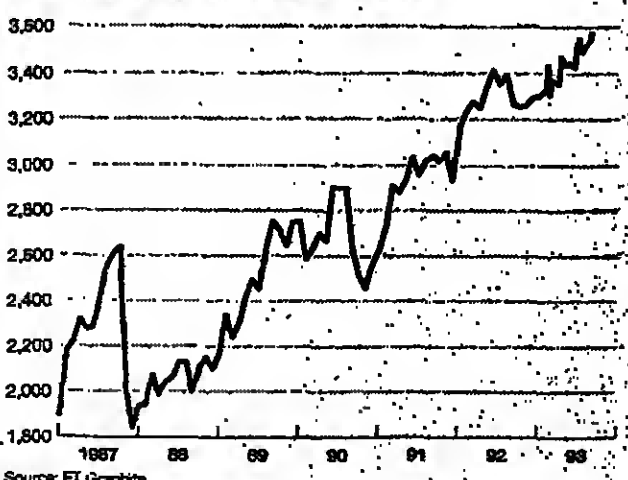
Railly lifts smaller companies

Small company shares benefited from the market rally which saw the FT-SE 100 index surge above 2,900 this week. The Hoare Govett Smaller Companies Index (capital gains version) rose 1 per cent from 1,464.03 to 1,478.91 over the week to July 29.

Wall Street

Optimists read between the lines

Dow Jones Industrial Average



have not paid the price of these unfulfilled expectations. Just the opposite, equities have kept edging higher. In normal times, bad news should force investors to drive prices lower, until they reflected the new reality of market fundamentals.

There are various explanations for this seemingly irrational behaviour. First, investors and most of the

professionals on Wall Street are incurable optimists. If they were not, they would not be in the market - pessimists do not buy stocks, they buy bonds.

Second, the economy may be struggling, but corporate earnings are improving, thanks to the measures taken by companies at the tail end of the last recession to cut costs, boost efficiency and improve profitability. Although some compa-

nies are coming to this process rather late - IBM's managers announced plans for thousands more redundancies and more plant closures this week - most have the bulk of the restructuring out of the way, and many are now reaping the rewards of their actions.

Third, even if the fundamentals are not great, there is enough money flowing into equities to keep prices afloat even in all but the most difficult of times. So long as interest rates remain low - and the current sluggish state of the economy should ensure they remain low for a while yet - investors will keep switching their funds out of low-yielding short-term assets into stocks.

Finally, economic figures such as the GDP data are rarely what they seem at first glance. Take this latest release, for example. The disappointingly weak headline number masked some positive news, such as 3.8 per cent increase in consumer spending and the low implicit price deflator. (A key inflation barometer). Even more encouraging was the role of inventories in the data.

The discrepancy between

strong consumer spending and weak output was explained by inventories. They had grown so much in the first quarter that during the second quarter manufacturers were able to keep up with the increasing consumer demand by drawing down their stockpiles rather than stepping up production. If inventories were excluded from the GDP numbers, growth in the second quarter would have been a handy 3.7 per cent.

It is this kind of thinking that is keeping stocks at their current high levels. If the underlying improvement in the economy is eventually reflected in the headline figures (and, crucially, the jobs numbers), and if companies can sustain the upward momentum in earnings, then the stock markets have a chance of not just breaking new ground, but building on it in the second half of this year.

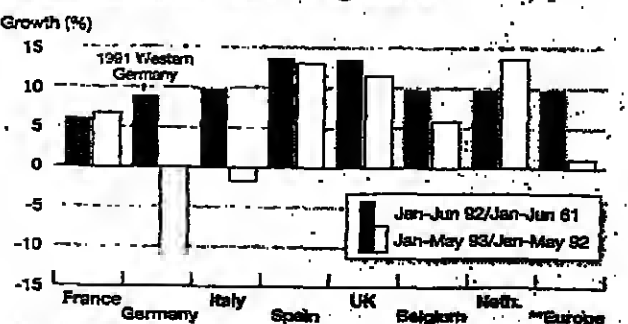
Patrick Harverson

Monday	3567.70	+ 20.96
Tuesday	3565.46	- 2.24
Wednesday	3553.45	- 10.01
Thursday	3567.43	+ 13.97
Friday		

The Bottom Line

A somewhat sickly sector

European pharmacy drug sales



were \$19m, compared with \$18m in the US. Europe, too, is being swept by healthcare reform. The reforms, though less dramatic, are nevertheless indistinctly undermining results of both US and European groups. The reforms have hit hardest

9 per cent). During the first five months this year, it has collapsed 11 per cent.

Zeneca, ICI's former biotech subsidiary, estimates its German sales for the first six months were down 18 per cent, while SmithKline Beecham, the Anglo-American healthcare group, believes its sales were down 9 per cent.

Meanwhile, Italian reforms are also having an impact. IMS estimates the market grew 10 per cent during the first six months last year. This year, during the first five months, it fell 1.5 per cent.

As a result, the European market, expanding at 10 per cent during the six months to June in 1992, registered growth of only 0.9 per cent during the first five months of this year. Worse is to come. Jan Leachly, SmithKline Beecham's head of pharmaceuticals and group chief executive

designate, said: "I'm not optimistic about Germany and Italy for the full year. And there's no doubt that in France, the UK and Spain we will see cost-containment measures introduced in the near future."

Given the poor outlook in the US and Europe, it may be too early to call the turn for drugs sector. Some companies are riding out the storm. Those armed with new, innovative products capable of generating volume growth, are prospering.

Take Roche of Switzerland, whose shares have risen from SP\$3.001 in September 1990 to a peak of SP\$4.650 this month. Astra, the Swedish company, has also held on well in spite of being hit by the German reforms. Its shares have risen from a low of SKr46 in 1989 to SKr146 this week.

The lesson is that, although pharmaceutical stocks used to be difficult to differentiate, they must now be picked with care. That may bring a smile back to the faces of some - but not all - pharmaceutical company chief executives.

Paul Abrahams

FINANCE AND THE FAMILY

Leaseholders get the go-ahead

Now, they are free to enfranchise – but the problems are just starting, warns Bethan Hutton

FLAT owners with dwindling and unmortgageable leases can look forward to better times come November when a new law will entitle them to extend their leases at market rates. But leaseholders of flats in badly-managed blocks, whose situation was also supposed to be eased by the new law, may find it is not the answer to their problems.

After a difficult passage through the Commons and the Lords, the Leasehold Reform, Housing and Urban Development Act received royal assent this month. It is due to come into force on November 1.

It is immensely complicated but gives flat leaseholders two basic rights: to extend their leases or, if the block of flats and a proportion of its residents meet certain criteria, to enfranchise – club together and buy the freehold. This gives them the power to manage their own block and extend their own leases as they see fit.

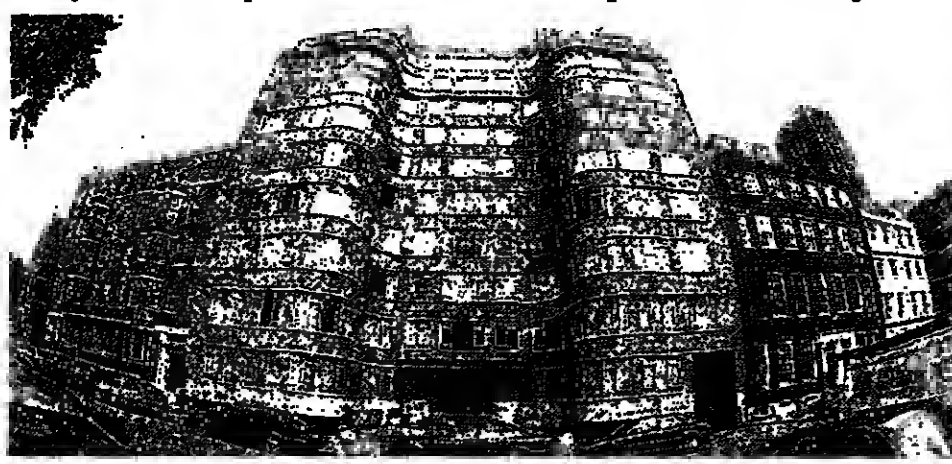
Some of the main conditions for enfranchisement are:

■ At least two-thirds of the flats must be let on long leases (more than 21 years at the time leases were granted).

■ At least 90 per cent of the floor space of a block must be residential.

■ At least half the flats where owners wish to enfranchise must have been the principal residence of their leaseholder for the previous 12 months, or for at least three of the previous 10 years.

■ The ground rent (not main-



Florin Court, in London's Charterhouse Square... the type of block for which enfranchisement was designed

tenance charge) must be low, which is defined as less than two-thirds of the rateable value, or, if the lease was granted after April 1 1980, not more than £1,000.

■ Two-thirds of qualifying leaseholders must agree to enfranchise.

■ If a block is converted, or has fewer than four flats, the landlord must not be resident.

Some of the conditions sound unobjectionable, but they will stop large numbers of leaseholders from enfranchising.

The condition that a maximum of 10 per cent of a block's floor space can be non-residential will rule out most of the 20th century suburban blocks built over rows of shops.

An unknown number of flats will fail the low rent test, particularly as some landlords

have set the ground rent deliberately at a pound or two over two-thirds of the rateable value.

The residency test might stymie the hopes of leaseholders in many central London blocks where a large proportion of the flats are owned by companies or the properties have been bought as a pied-à-terre by foreigners or people living in the country.

Flats on the south coast and other popular holiday resorts may have similar problems if more than a few in a block are used as holiday homes.

Some blocks with severe management problems – excessive maintenance charges and negligent landlords – may find that they are ineligible for enfranchisement because the nature of the block or the peo-

ple living in it makes it subject to one of the exclusions. Individual residents would still be able to extend their leases in this situation, but they would not gain any rights over managing the block.

Even if a block and its residents pass the eligibility test, they must then decide if it is actually worth their while to enfranchise or extend their leases.

Owners of leases on high-value houses (also eligible for enfranchisement under the new law) stand to gain the most. Surveyors estimate that owners of some leasehold houses in central London could make £250,000 from enfranchising their properties.

Holders of flat leases with only 20 or 30 years left have little to lose and much to gain

from extending them; their properties would then become saleable and mortgageable. But anyone with a lease of 80 or 90 years on a flat in a well-managed block could find that the amount of time and money absorbed by the enfranchisement process would outweigh any gains.

One problem is that the costs involved in enfranchisement can only be guessed at until the first test cases have gone through. The amount leaseholders will have to pay for the freehold is based on a calculation of the market value of the freehold of the block, plus the "marriage value" – how much more the leasehold and freehold are worth together than as separate items.

The law states that leaseholders must pay the landlord at least 50 per cent of the marriage value. Many landlords are expected to hold out for more than 50 per cent, possibly as much as 75 per cent. Many leaseholders will need to get a loan to buy their share of the freehold. Arranging lots of small loans for residents of a large block could be complicated and time-consuming, but the Council of Mortgage Lenders is considering lending directly to companies formed by residents to buy the freehold, which could simplify the process.

The other unknown cost factor is fees for professional advice. Leaseholders are liable not only for their own legal costs and surveyors' fees but also those of their landlord. The law states that these must be "reasonable," but it will not be possible to define that until the ground has been tested.

Also, if a freeholder is unwilling to sell, it will be possible for him to prolong the process – forcing the case first to a local leasehold valuation tribunal, followed by the Lands Tribunal and then conceivably to the High Court, pushing up fees all round.

If you and your fellow-leaseholders decide to go ahead, the first thing to do is serve a discovery notice on your immediate landlord (who might not be the freeholder) asking for the name and address of the freeholder and details of other interests in the property.

The next step is to create a company to act as the purchaser, and to serve a tenants' purchase notice on the landlord and the freeholder, giving details such as the proposed price.

The freeholder will respond with a counter-notice saying whether he agrees with the terms offered. If not, a process of negotiation follows.

If agreement cannot be reached within two months of the landlord's counter-notice, the matter can be taken to a leasehold valuation tribunal.

The act has just been published and copies are available from Her Majesty's Stationery Office. The Department of the Environment has an leaflet on the subject. For a copy, telephone 071-276 3398. The department is planning to publish a more detailed guide later this year.

Directors' transactions
Holdings cut again

HARD ON the heels of last week's significant sales in Logica, the same two directors have been cutting their holdings further. Each has disposed of a further 25,000 shares, bringing the total amount sold, over that extended weekend, to 200,000.

Dealing by directors in Etam, the women's wear retailer, has been fairly modest in recent years – some small purchases in 1990 at around 70p and some fairly small sales last year at around 250p mark. But the sale by Jacob Flatou, a non-executive director, of 400,000 shares is on an altogether different scale. Shares in Etam have been on a strong upward trend since late 1990 but, recently, it has been losing momentum. Earnings are forecast to rise

by approximately 40 per cent in the year to end-January 1994 and by a further 15 per cent the following year. That sort of growth should ensure the shares avoid any dramatic setback such as the ones seen in 1990, but the upside potential already seems discounted at the ground level.

Court Cavendish was floated on the market on July 13 1993 and, despite the issue being over-subscribed, ended the first day dealing at a discount to the issued price of 225p. That discount has since fallen further and five directors have bought a total of 16,300 shares at 187p. So far this year, a number of nursing home companies have come to the market or raised capital.

Colin Rogers, the Inside Track

DIRECTORS' SHARE TRANSACTIONS IN THEIR OWN COMPANIES (LISTED & USM)

Company	Sector	Shares	Value	No of directors
SALES				
BPB Industries	Chem	15,756	34	1
Delyn Group	Pack	35,000	29	1
Densitron	Chem	125,000	45	1
Etam	Text	400,000	1,000	1
General Electric Co.	Eng	175,000	80	1
Jacques Vert	Text	500,000	548	2
Logica	Comp	50,000	122	2
Pelican Group	HSL	250,000	155	1
PURCHASES				
Aberforth Sm Cos Wt.	Int	17,000	12	1
Barlows	Prop	1,533,238	685	1
Birky	Misc	7,200	11	2
BPB Ind Cos Sub Sds.	Chem	20,000	21	1
Brit Bloodstock Agr.	Misc	68,000	33	1
Burtonwood Brewery	Brew	15,000	21	1
Capital Gearing	N/A	19,500	81	1
Cosalt	Misc	33,000	31	5
Court Cavendish	Nurs	16,228	30	5
Divine Heel	Misc	88,000	19	2
Gest	FDRe	15,000	54	1
Gibbs Mew	N/A	22,500	66	1
Legal & General	Inst	3,000	15	1
Leveraged Opp Trust	Int	20,000	21	1
London & Atlantic	Int	16,228	15	1
Mercury Asset Mgmt	Off	4,828	27	1
Morrison (WM) S'mkt	FDRe	125,000	156	1
Neepsend	Eng	400,000	96	1
Next	Stor	75,000	128	1
Shoprite	FDRe	50,000	73	1

Value expressed in £000s. Companies must notify the Stock Exchange within 5 working days of a share transaction by a director. This list contains all transactions, including the exercise of options (if 100% subsequently sold, with a value over £10,000. Information released by the Stock Exchange 19-23 July 1993. Source: Directors Ltd, The Inside Track, Edinburgh.

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1965	£15,679	£1,901
1970	£30,269	£2,369
1975	£35,455	£3,304
1980	£72,231	£5,046
1985	£191,470	£7,741
1990	£396,266	£12,052
1993	£702,631	£14,310

* Basic rate to 1972 – source: OZV. Thereafter, higher net rate – source: Microplan. Figures are to 31st December 1993. Figure to 30th June and are based on total return, net income reinvested. † Calculations by Foreign & Colonial Management Ltd, using end-of-year prices, net income reinvested, at 31st December 1993 (figure to 30th June), includes historical 3.5% national expenses. Current charges are 0.2% commission excluding 0.5% Government stamp duty (minimum 50p).

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THE A-Z of WARRANTS

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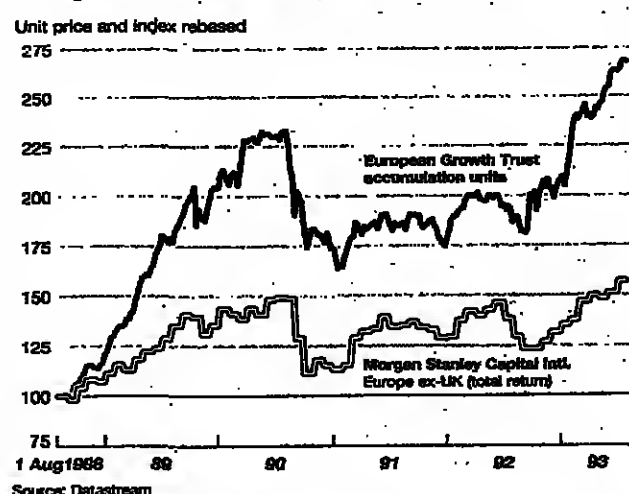
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FINANCE AND THE FAMILY

Unit trusts / Morgan Grenfell European Fund

Successes outweigh the errors

Morgan Grenfell European Growth Trust



THE European stock markets have offered fairly slim pickings since the fall of the Berlin Wall in 1989. Many a fund was launched in the general euphoria, only to suffer as German interest rates were kept high to meet the costs of reunification.

Morgan Grenfell's European fund has performed consistently well through the turmoil. Not only is the fund top of the sector over the five years to July 1, with growth of 141.8 per cent (offer-to-hold with income re-invested), but it is in the top quartile (best 25 per cent) of funds in the sector over every period published by *Microcap* (one month, six months, one and three years).

The fund has been managed by John Armitage since its launch in 1988, when Morgan Grenfell moved into retail unit trusts. Figures show the fund beat the Morgan Stanley European (ex-UK) index comfortably in 1988 and 1989 and did so again in 1990 (although both the offer price and the index fell sharply that year). It had a poor 1991, underperforming the index substantially, but picked up again in 1992 and is well ahead this year.

"I only like to invest in things with substantial upside. I reckon that 30-40 per cent of what a fund manager does is a mistake," says Armitage. "The

successes have to go up a lot to allow for the mistakes."

His biggest success was the Swiss watchmaker SMH, but the holding is still a source of regret. Although the share price has increased fourfold since he bought it, it has sold at a loss of 35 per cent, and did not get the full benefit of its original decision.

Armitage says he tries to be as eclectic as possible and, accordingly, does not buy stocks that rise and fall automatically in line with the mar-

ket. He cites his purchase of shares in Norgeskredit, the Norwegian mortgage lender, at Nkr100 on the ground that the asset value was around Nkr220 and the dividend yield was 5.5 per cent. Almost immediately, a Norwegian financial crisis developed and the shares slumped to Nkr32. Given that Norgeskredit was a substantial holding in the fund, this worried Armitage, but the shares have doubled over the past eight months and are 33 per cent ahead of what he paid.

ket of 1980-82, most investors wanted liquidity and were willing to pay a premium for shares in large companies," says Armitage. He believes there is more value to be found among small and medium sized company shares.

His focus is on stock-picking rather than asset allocation, although he tries to fit stocks within an overall strategic framework. At the moment, he is not overly bullish about continental equities, particularly in the "hard core" markets of mainland Europe.

"Markets are at levels which discount a return to profitability," he says. But he believes industrial earnings will remain weak as volumes and prices come under pressure.

On the positive side, Armitage says: "There is a crashing need for interest rates to fall."

If this occurs, equities should benefit as funds flow out of cash and bonds. The fund's top 10 holdings are: SIP/STET (Italian telecommunications group), Astra (Swedish pharmaceuticals company), Securitas (Swedish security company), Parmalat (Italian dairy products group), Colruyt (Belgian food retailer), Bank Julius Baer (Swiss bank), Christian Dior (French fashion house), Axa (German food retailer), Scor (French re-insurance company) and Fila Holdings (Italian sportswear group).

In terms of geographical spread, the Morgan Grenfell fund is underweight (relative to the Morgan Stanley index) in France, Germany and the Netherlands and overweight in Italy, Sweden and Norway.

The fund's current asset allocation (percentages in brackets) is France (17.8), Germany (15.7), Italy (15.1), Sweden (14.5), Switzerland (9.2), Norway (8.8), Spain (6.7), Netherlands (2.2), cash (1.6) and others (10.4).

At nearly £130m, the fund is one of the dozen largest in the European sector. Only five other funds (Eagle Star European, Fidelity European Income, Henderson European Income, Lazard European Growth and Providence Capital European) can match its achievement of top quartile performance over six months, one, three and five years.

Charges The initial charge is 5.25 per cent and the annual 1.25 per cent. The bid-offer spread is around 6.6 per cent at present. The minimum investment is £1,000 or £25 a month via the regular savings plan.

The trust is payable at no extra charge, however, it pays no income and is suitable only for those looking for capital growth.

Philip Coggan

Diary of a Private Investor / Kevin Goldstein-Jackson

More help for small shareholders

AROUND 1.66m people applied for shares in BT3. But how many of them also will buy shares in non-privatisation issues? Probably considerably less than two-thirds.

Although it has been estimated that British adults owning shares have increased from 9 per cent in 1979 to about 25 per cent, more than 70 per cent of them have an interest in only one or two companies.

According to figures from

Proshare - of which more in a moment - private shareholders in 1992 held 65.3 per cent of UK quoted shares directly, while pension funds and insurance companies accounted for 12.2 per cent.

By 1989, and despite a spate of privatisations, the number of UK quoted shares owned directly by private investors had slumped to 21.3 per cent, while pension funds and insurance companies owned 48.8 per cent.

What explains this dramatic change? I believe it can be attributed largely to two things: the considerable tax advantages given to pension and life assurance companies compared with private investors owning shares directly; and the belief by many people that, apart from privatisation issues, owning shares is rather risky and best left to "experts."

Another reason why many private investors view direct investment with some caution is because they have read about corporate scandals, such as executives awarding themselves huge salaries for modest successes and being given excessive payments to leave companies which they have brought almost to their knees. What influence can an ordinary private shareholder have over the general governance of a company?

City institutions have a number of powerful committees which make representations to the government and can use the threat of their massive voting power to work behind the scenes to encourage changes in various badly managed companies. But where are the equivalent committees to represent private shareholders?

Many people also are unsure about how to buy shares. It is easy with privatisation issues: just clip a coupon in a newspaper. But acquiring shares in other companies can seem a daunting experience. Where can they turn for impartial help and guidance?

Fortunately, there are now two organisations which seek to improve the lot of the private investor: Proshare, and the UK Shareholders Association (UKSA).

Proshare was formed last year and encompasses the old Wider Share Ownership Council and the Stock Exchange Investors' Club. It offers a number of attractive benefits in return for the £30 annual subscription.

I have been a member since the start and, besides an informative and well-written monthly bulletin, I have received a number of other useful publications. Especially helpful was Proshare's Guide to Information Sources for the Private Investor. This ranked newspapers, magazines, newsletters, radio and television programmes, and a variety of other information sources according to their value for money, ease of use, simple language and up-to-date information. It also gave brief summaries of the content and nature of each information source, along with details of cost and how and where it could be obtained.

Proshare organises events for members, too. These have included visits to such compa-

nies as Granada, Eurotunnel, Pilkington and British Airways, plus visits to the stock exchange and seminars on a variety of investment topics, including options. Proshare members also get details of a variety of special offers on products likely to be of interest to private investors.

Financial support for Proshare has been provided by the stock exchange, the Department of Trade and Industry, a number of major companies and the Gatsby charitable trust. But while it aims to "stimulate fiscal initiatives that will give the private investor equal taxation treatment with the institutional investor" and will engage in "promotional initiatives to encourage more share-friendly and lower cost share distribution services," Proshare does not offer openly to aid shareholders in

their relations with particular companies. This task is done by the recently-formed UKSA. The association is independent and gets all its income from subscriptions: £20 a year for full members and £12.50 for associates.

Its main aim is to "stand up for private shareholders" as well as to "provide a forum for private shareholders to voice their concerns" and "promote improved standards of corporate governance." Already, UKSA has submitted a number of recommendations to various industry and government committees.

There are thriving shareholder organisations in Germany, Holland, Sweden and the US, and UKSA aims to learn from them. I have joined recently and can look forward to three newsletters a year, although the association hopes

eventually to produce between six and 12. UKSA also organises special events, which have included meeting John McFarlane, chairman of the task force established recently by the Auditing Practices Board to look into "the future development of auditing."

I very much welcome the advent of these organisations. Perhaps it will not be too long before the government heeds their advice and reverses the seemingly inexorable decline of direct investment in shares by private investors.

Further details of UKSA can be obtained from its chairman, Donald Butcher, 12 Burgh Heath Road, Epsom, Surrey KT17 4LJ. Details of Proshare are obtainable from its offices at Library Chambers, 13-14 Basinghall Street, London EC2V 5BQ.

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First Option Bond		12 Month	£1,000	8.34% ^A	Yy
MAT SAVINGS CERTIFICATES (Tax Free)					
40th Issue		5 Year	£100	6.75% ^A	OM
6th Index Linked		5 Year	£100	3.25% ^A	OM
Childrens Bonds E		5 Year	£25	7.85% ^A	OM

This table covers major banks and Building Societies only. All rates (except Guaranteed Income Bonds) are shown Gross. Fixed = Fixed Rate (All other rates are variable). OM = Interest paid on maturity. Ny = Net Rate.

A = Initial deposit of £5,000 or £100 per month required. B = Rate guaranteed to be at least 2% above base rate (Min. 9%) until 2.1.94 and then 1% above base until maturity. Source: MONEYFACTS, The Monthly Guide to Investment and Mortgage Rates, Laundry Lane, North Walsham, Norfolk, NR28 0BD. Readers can obtain a complimentary copy by phoning 0692 500677.

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FINANCE AND THE FAMILY

'Shell' stocks look ripe for reincarnation

Nicolas Phillips examines the potential for revival by moribund companies

THE GROWTH in business confidence in recent months has prompted talk about reviving "shell" stocks - moribund companies ripe for reincarnation under new management. While this type of stock market activity has been dormant for several years, it is not difficult to see why using such companies should again become popular.

There are, after all, a considerable number of potential candidates which have only just weathered the economic blizzard. There is also a new generation of managers which, having served its apprenticeship in an established company, is now ready to create one of its own.

Knowing there is potential shell activity around is tantalising to the private investor because of the chance of making some very quick and large capital gains. But where does the average private investor find "shells" before the all-important emergence of new management to transform that dormant quote? How can the private investor shorten the time between making a decision to buy shares and then seeing some take-over activity?

There is no certain method of picking either the right company or the right time. But there are several steps a private shareholder can take in an effort to reduce the odds from "rank outsider" to "short favourite" and see more rapid results.

First, look at the capitalisations of the various companies quoted on the stock market. Any entrepreneur seeking a suitable vehicle with which to realise a stock market ambition will generally be seeking a company with a low capitalisation, since it will not only be more affordable but its share price will move disproportionately once other people realise what is happening.

Therefore, rule number one is to consider only those companies with a capitalisation below £2m. Before their transformation, such companies as Bel Air Cosmetics, Polly Peck, Malina, Birchall Jewellery, and DSC all had capitalisations well within that limit.

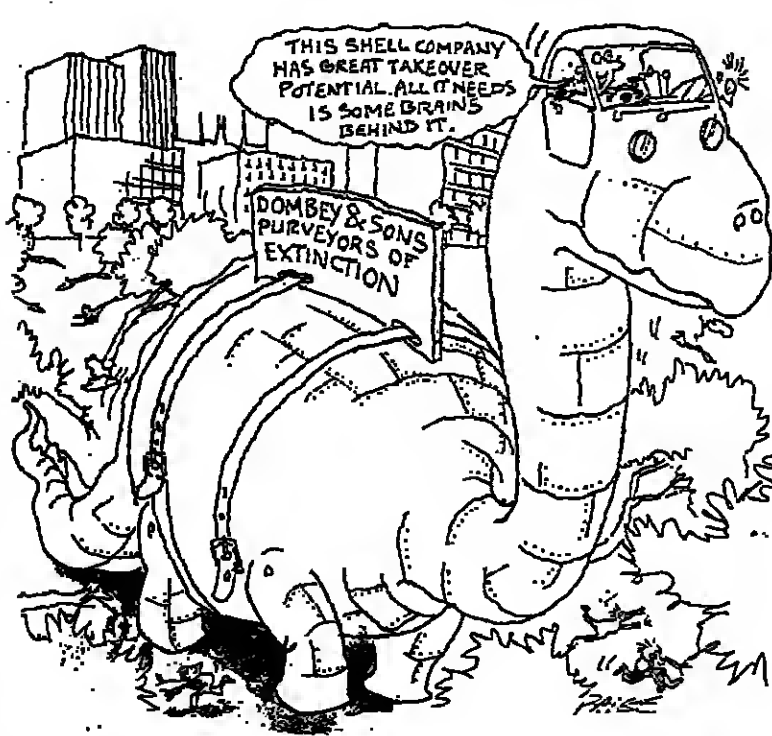
Armed with the *Financial Times*, or the Stock Exchange Official List, and ignoring USM companies, pick out only those companies which satisfy that capitalisation limit. It will probably leave you with a list of some 250-300.

A further narrowing of the field is achieved if only those companies which are making poor profits (or even losses) are chosen - strange advice from which most sane individuals will tell you to steer well away. But there is method in this madness. Companies which are well managed and producing increasing profits each year are better able to resist take-overs and, in any case, will not be capitalised at under £2m for long.

It takes time and effort to glean information on small companies' past performance. The *FT Investor's Chronicle* and the *Business Library* are the best sources, and a few hours devoted to this task will be rewarding. But, in a post-recessionary period, you will still be left with a formidable number of companies from which to choose.

Watch price movements over a period, plotting these at least once a week on some graph paper. A rising price, often over a period of several weeks, is inconsistent with a company which has hit hard times. Someone always knows more than you do, and while insider trading rules have limited severely the use which can be made of "price sensitive" information, an examination of share prices and subsequent corporate activity suggests this legislation has succeeded only partially.

When a company is on the receiving end of take-over activity, it is involved in talks with its advisors (such as accountants, solicitors, stockbrokers and bankers). People notice such things. But how does a would-be investor know if two and two is being added to make five? An observer could, very easily, draw a wrong conclusion - and that could mean a very expensive mistake. Many years ago, William Pickles tried to price and everything looked set fair for a very profitable run. But the shares to be suspended and the company to enter receivership.



So far, we have achieved nothing other than risk money and have the dubious pleasure of watching the share price gyrate until the company announces what is happening. We need now to try to introduce some degree of certainty into the selection.

By looking again at the financial press, company reports or information in the *Business Library*, you will be able to find out who owns large stakes in companies. If you seek out those where, in particular, the board of directors has a holding (say, up to 30 per cent), you can be reasonably sure that it might at least have the wit to know when it is beaten and seek to sell its shares before the company goes bust.

That directorial shareholding could, therefore, become the all-important stake a budding entrepreneur requires. So, there you have it - a simple system. Below £2m capitalisation, making losses/small profits, rising share price, and a boardroom shareholding to help underpin your stake. What could be easier? Your way to riches is assured - or is it?

First, you will have to contend with your stockbroker's stunned silence when you ring to place your buy order. He will suggest so many other more rational ways in which to invest your money. He could also be right. I can remember buying my second tranche of shares in Excalibur Jewellery when the price had risen from 11p to 13.5p. They subsequently went to £1.40. Alas, his caution was all too prophetic when it came to Ramar Textiles.

If, however, you have decided to try the "shell" game with a portion of your funds, do not be dissuaded. Later, though, when you have established

your credibility as a shrewd punter, you could have to be careful to spread your buying instructions over several brokers so that they do not start following you, forcing you to pay more on subsequent purchases. How often have you had a call from your broker suggesting you buy something because "one of our other canny clients has just bought very heavily".

Second, you will have to be prepared to buy in relatively small lot sizes. Gone are the days when you could pick up sizeable chunks of small companies without being made to pay excessive premiums over the share price. But there is often time, and your patience will be rewarded by being able to buy at reasonable levels.

Third, you will worry that, if the price has started moving up, it might be too late to jump aboard. An examination of many "shell" operations reveals that, almost always, the initial rise in share price is followed by either a plateau or even a drop - presumably, as other investors get cold feet and decide to pull out.

I referred, at the start, to the reincarnation of shell activity, which presupposes there are dormant periods. How do you recognise when such a period is about to descend on your efforts at making a fortune? A wise old US investor suggested many years ago, that "when the bellboy in the lift starts giving you share tips, you know that the market is riding for a fall." Nowadays, there are not many bellboys around, so for its modern equivalent, beware the time when your bank manager gives you tips to buy speculative stocks. They always seem to have yesterday's news.

A husband's bad conduct

MY DAUGHTER'S husband has started to behave badly - with the aim, I suspect, of gaining a financial settlement if it came to a separation or divorce.

I am particularly concerned about two assets: (a) a house I gave my daughter (value £60,000 after the wedding, value £90,000 now), and (b) a personal equity plan of £50,000 in my daughter's name, which I funded.

The marriage was eight years ago and there is one female child aged two. The husband has virtually no assets. Is there any advice you can offer to mitigate this situation? We live in Scotland.

The house, which you bought and gave to your daughter will not be taken into account in assessing her husband's share of the matrimonial property, owing to the fact that it was given to her.

The personal equity plan is slightly more problematical. It might be more difficult to prove that you funded it. If, however, you are able to prove that you did, then it would also fall out of the definition of "matrimonial property."

Accordingly, it would not be shared by the husband on divorce.

Tax is more than income

ABOUT FIVE years ago, my mother-in-law sold her house and moved into a residential home. She was advised to invest the proceeds from the sale in a National Savings income bond.

The interest from this is paid monthly without deduction of income tax and is her main source of income.

In assessing her liability, the Inland Revenue has advised that untaxed interest is assessed on a current year basis for the first and second year of the income received. The third year can be taxed either on a current year basis or a previous year, whichever is beneficial to my mother-in-law.

After that, the interest is

taxed on a previous year basis until the penultimate year. Then, it is taxed on the current year basis or the previous year basis, whichever is more favourable to the Revenue. In the final year, it is assessed on a current year basis.

If my mother-in-law was to sell her income bond this year, the amount assessable for tax would be significantly greater than the income actually received.

Has the Revenue interpreted the tax legislation correctly? If so, what should my mother-in-law do to minimise her liability?

Yes, what the tax office told your mother-in-law is an accurate paraphrase of the relevant parts of sections 64, 66 and 67 of the Income and Corporation Taxes Act 1988.

Although we have mentioned these capricious rules in our columns from time to time over the years (because the 1988 Act merely re-enacted long-standing legislation on this point), they do still unfortunately come as a shock to some of our readers.

As you say that your mother-in-law "was advised" to buy a National Savings income bond, perhaps she has grounds for a formal complaint against her adviser for not warning her that she would be taxed on more interest than she would actually get if interest rates fell over the life of the bond.

If she read the National Savings Department's advertisements and/or descriptive leaflet before deciding to act on the adviser's recommendation, she might wish to submit a formal complaint to the department or to the Advertising Standards Authority if she considers that the potential tax charge on non-existent interest was not made sufficiently clear by the department's literature.

She might also wish to complain to the Board of Inland Revenue about its decision not to produce an explanatory leaflet on the odd rules for the taxation of untaxed interest.

Finally, she might wish to send copies of her letters of complaint to her MP although, unfortunately, the House will

O&A

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shortly be rising for its exceedingly long recess.

The address of the Board of Inland Revenue is Somerset House, Strand, London WC2R 1LB. The House of Commons' post code is SW1A 0AA.

An MP who won't answer

DESPITE writing repeatedly to my member of parliament about the unprofessional manner in which the Inland Revenue has dealt with my tax affairs, he either fails to reply or gets his secretaries to reply (clearly, they have not bothered to read my correspondence).

I have asked for the matter to be referred to the ombudsman but, again, my MP failed to reply. Can you provide me with the address of the ombudsman/Inland Revenue ombudsman?

Second, is there an independent body to which one can write with a complaint about an MP's attitude. It seems ridiculous that an MP can simply fail to do his job for his constituents.

The address of the Revenue Adjudicator, Elizabeth Filkin, is 3rd Floor, 25 Hartman Road, London, SW14 4SP. The phone number is 071-830 2292.

As a first step, ask your tax office for the free pamphlet IR120 (You and the Inland Revenue) if you have not yet seen a copy.

MPs are free agents - indeed, they are even free to decide not to go near the House of Commons between election and the next dissolution, and to ignore all correspondence. Those who voted for them must accept the consequences of their choice, as must all their other constituents. In defence of your MP, we should point out that the volume of correspondence received by most of them would overwhelm many business people.

Minding Your Own Business

Gunsmith over a barrel

Tim Burt visits a family company which has lost its market



Under the gun: Tibor Takats with his wife Corinne and son Graham

TIBOR Takats has a lethal workshop. It is a repository of ballistic hardware - the kind of place about which there are gun laws. There are guns galore: bolt actions, pump actions, double barrels, pistols, stocks, grips and firing mechanisms by the boxful. Sitting amid the stockpile and wearing his spectacles and crumpled cardigan, Takats - a Hungarian war veteran - looks more like Gump than a firearms manufacturer. Unlike Gump, Takats' story is no fairy tale. As a teenager in Nazi-occupied Budapest, his apprenticeship at Skiba and Ploki, the city's leading gunsmith, was interrupted in 1944 when he was drafted to fight the advancing Russians.

The craftsman says he only survived because he was hospitalised with shell shock. Captured and interned in 1945, he decided to flee Hungary after being forced to "loot furniture for the glorious Red Army".

He escaped, only to be arrested in Austria by the British Army which was screening refugees in the search for war criminals. The detention camp near Glasfurd proved to be Takats' gateway to business in Britain: he was recruited at the camp as a volunteer worker for the labour-starved UK.

Since arriving in 1948, Takats has built up one of the country's most specialised gun shops. It relies on expertise gained in the back streets of Budapest and in the more refined atmosphere of Holland and Holland, the London gunsmith, where, in the 1960s, he repaired shotguns with pedigree names such as Cogswell and Harrison, Henry Atkin and Thomas Brand.

Today, however, such weapons are not attracting buyers. Takats' own business - set up with a £9,000 loan more than 30 years ago to refurbish 300 rifles for the armies of newly-independent Commonwealth states - has lost its fireproof.

Looking round his workshop in Ware, Hertfordshire, the war veteran points out a dusty print of a 19th Century hunting scene. It depicts a poacher caught in a trap and is captioned "A painful discovery". The words are a fitting verdict on many gunsmiths struggling to overcome the long recession.

Takats dates the beginning of his downturn to August 30 1987. There were no interest rate rises or currency crises that Thursday; it was the afternoon Michael Ryan killed 14 people and wounded 15 others with a Kalashnikov automatic rifle and a pistol.

The government quickly tightened firearms law, introducing new restrictions on sales and ownership. More importantly, perhaps, Britain's worst mass-shooting undermined demand for sporting weapons. For many people, shooting for fun had become socially questionable.

"The Hungerford massacre had a dramatic effect on demand," says Takats. "Our turnover had been growing every year until the late 1980s. At one time we sold 30 to 40 (shotguns) a month; it's now three to four a month."

Since the peak, the company's income has fallen by almost 50 per cent, from more than £180,000 to around £70,000.

Borrowings, meanwhile, have risen. In a calculated gamble, Takats, together with his wife and co-director Corinne and son Graham - who handles financial matters - decided to diversify into fishing equipment and country clothing in a bid to stem the losses on gun sales.

They arranged a £36,000 secured loan to finance the move, but it has so far failed to generate substantial new business.

The recession has persuaded cash-strapped members of the hunting and fishing fraternity to abandon brand labels in

favor of cheaper alternatives. "The bank wants to see some change by the end of the year. We'd better have a good Christmas."

Anxious to placate his bank, Takats has reduced his stock "to a bare minimum" and even refurbished old and rusted air rifles stored for years in the shop cellar.

The discarded barrels lying on the workshop floor do not compare well with the engraved and intricately designed shotguns lining the walls.

"My skill is that I can make components from solid metal with just my hand-tools and my brain. That could die out. I carry on for my son but if things get worse we might have to sell up. It's not a success story, is it?"

Takats' Master Gunsmith, 73 High Street, Ware, Herts SG12 9AD. Tel: 0920-462057.

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HOW TO SPEND IT

Lucia van der Post looks at ways to reduce the shock when you take off your tights and walk to the beach



YOU may think it is a skirt but anybody who has been to east Africa knows better. A Kikoi is a bright cotton wrap that east African men wear around their middles with panache and dignity writes Lucia van der Post. Practical, tough and eminently washable, it is made from a long piece of cloth, 1 metre wide. It is secured by folding in the ends, drawing them around the waist and rolling the top down. It can be worn for sleeping, slopping

round the house, beach-combing. It is a perfect holiday garment – and you do not have to go to Kenya to get one. Simon Friend imports and sells them in a variety of colourways at £22.50. Coming in soon at Davies, 10 Great Newport St, London WC2 and American Retro, 35 Old Compton St, London W1 and 14 Pembroke Rd, London W11. For other stockists contact Simon Friend, 13 Hemberton Road, London SW9 9 LE. Tel: 071-274-7827.

The quick routes to browner, shapelier legs

IT'S summertime. You are heading for the beach and your legs do not look much like Julia Roberts'. What, if anything, can you do? Quite a lot, actually.

You have probably left it a bit late for a serious programme of toning and exercising but almost every beauty salon, health club and posh department store has developed a range of treatments which at the least leave the skin softer, smoother and better-textured and just may do a little bit more.

Harrods has remodelled, upgraded and altogether made much posher, its Hair and Beauty Salon. More importantly, it includes a much wider range of treatments. You could go in for something as simple as a pedicure and some chiropody or, if you wanted instant toning, you could try special treatments such as ionithermie. Aromazone, lymphatic massage or hydrotherapy.

This summer has seen a boom in the number of creams, gels and lotions all purporting to turn lumpy, dimpled skin into blamish-free silk. I have tried two – Dior's Svelte Body Refining Gel (£25) and Shiseido's Body Contouring Complex (also £25) – and though neither made any significant difference to my shape, the massaging the lotions require and the oils and extracts in them, undoubtedly leave the skin much softer. They are also remarkably unobtrusive so that you do not risk spoiling tights, sheets or clothes. Anybody thinking of spending £25 on such alluring prospects should understand that no miracles are likely.

Probably just as effective at a fraction of the price would be using a body brush (The Body Shop sells them for £5.50) to brush the skin on your legs for

at least five minutes a day.

One of our design team, Frances Trowsdale, tried out a few more. "Decleor has a night and a day treatment," she says.



"I massaged the night one, Decleor's Firming Body Oil (£18.30 for 50ml), into my legs after a bath with a gentle body brush using circular move-

ments as instructed. It is a thick pungent oil and should be used at night but never before putting on fine clothes. To my amazement the results

were instant – soft silky legs. "In the morning I used the Decleor Slimming Body Cream (£27.75 for 150g). This non-sticky non-greasy cream left the skin feeling firmer and the circulation much improved – I feel all that massaging helps."

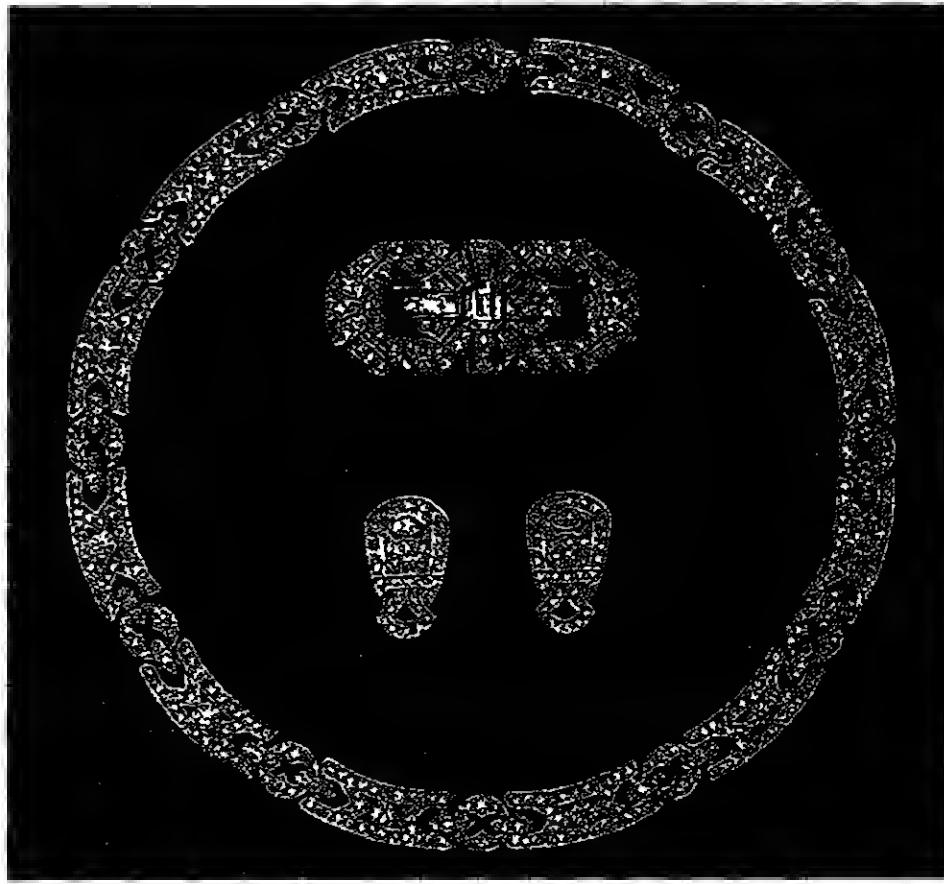
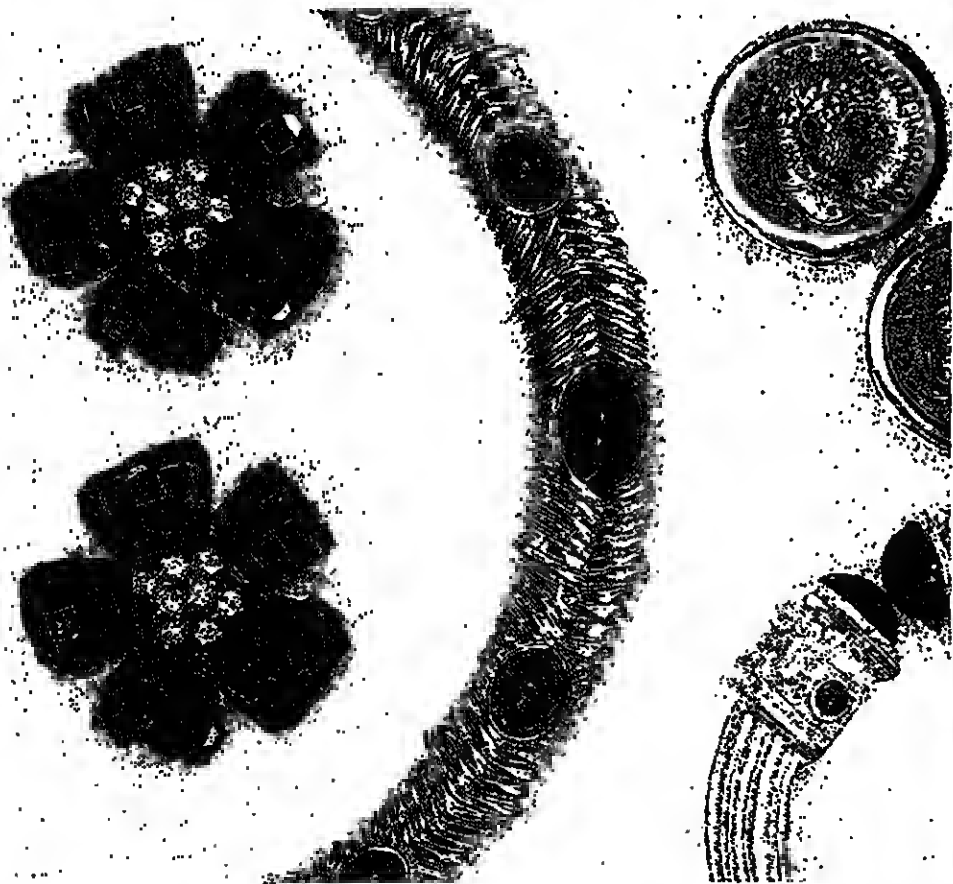
All legs, of course, look better brown but now we know just how dangerous sitting in the sun is the obvious answer is: acquire a tan before you go on holiday. From a bottle.

Jill James tried some. "The pick of the self-tanning lotions for my (very) pale skin," she says, "was Estée Lauder's self-tan tanning spray. It was so natural – I tried the medium bronze colouring – that colleagues failed to spot that I had a tan at all. A respray made them take notice. This was because my arms acquired two shades of colour because of my inexperience in applying it. But, where I had managed to get an even cover, it really did look natural."

"The only snags with the spray are that it is difficult to apply evenly and you are advised to leave one hour before you put your clothes back on. This proved tricky on a busy Saturday morning in our house – milkman calling to be paid, paperboy delivering the wrong magazine, son's friends wanting to know if he can go swimming."

"For the face, I liked Helena Rubinstein's Golden Beauty self-tanning lotion. Easier to apply than a spray, this cream gave an even, natural tan and I might be tempted to use it as an all-over cover this summer. But a word of warning – all the tanning lotions left my clothes stained and bra washing was a real chore."

In the city, even the best, brownest, longest legs look better covered. The Sock Shop has splendidly light, flesh-coloured sheers called Cosmetics For legs at £4.99 a pair.



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NOW THAT the flashy, go-getting 1980s are nothing more than a nostalgic memory and the lean 1990s are well under way, proper jewellery – such as diamonds, sapphires, gold and platinum – is out of vogue.

While the power suits and shoulder pads required bold, glitzy jewellery to match, today's softer fabrics and more flowing lines cry out for subtler, less obvious pieces.

Ever-on-the-ball Fior, which has long had a reputation for making finely-crafted costume jewellery, today has immaculate versions of all the latest decorative looks at extraordinarily reasonable prices.

A glance in the window of either of Fior's shops probably would make most of us pass by quickly, convinced that these glittering pieces were way beyond our means. But study them more closely and you will find that almost all of them are immaculate pieces of costume jewellery which look every bit as well made as the real thing and sell at very accessible prices.

Fior employs the techniques the master jewellers use to make their *haut joaillerie*. All the settings are hand-drilled, all the pieces hand-finished. There are cantilevered bracelets, enamelled brooches, "lost settings" (a traditional setting for fine stones to make sure the claw is not seen, which was used to make the flower earrings photo-

Real gems are too brash for the '90s

Lucia van der Post on the elegant and affordable costume jewellery that matches the new fashion for flowing lines and softer fabrics

graphed above left) and fine beading.

All the care and skill is there; only the intrinsic materials are different. Whereas *haut joaillerie* is made from gold and platinum, from silver and fine gem stones, the Fior versions use cubic zirconia, four gems, rhodium and gold plating.

All this, of course, has a remarkable effect on the price. Whereas a pair of classic two-carat diamond stud earrings probably would sell for around £500 if real, the Fior version of two-carat cubic zirconia is just £50.

And when it comes to something as exacting as the diamond set of necklace, brooch and earrings photographed above right, the price difference is even more dramatic. The original 1930s set on which it was based probably would sell today for somewhere between £10,000-£15,000, while

the version here sells for £506 (although the pieces can all be bought separately: the necklace is £215, the brooch, £250, and the clip earrings £41).

The lost-setting flower earrings beloved of Van Cleef and Arpels, hand-set in silver gilt (and photographed above, left) are £400; centres can be "rubies", "sapphires", "emeralds" or "amethysts". Pictured with the earrings is a Romanesque bracelet in matt 18-carat gold plate for £65, a gold and cabochon necklace for £155, and Roman coin earrings at £44 the pair.

Anyone familiar with what is *à la mode* in the swish Bond Street jewellery stores will recognise the looks at once. There are the "gold" and cabochon rings and bracelets, the Romanesque pieces, the coin earrings, the flower earrings, the Dallesque watches, and the sharper Faloma Picasso-style pieces.

Besides selling ready-made versions of all the latest looks, Fior has established a niche in making perfect copies of pieces that are too valuable to wear. Many a celebrity lodges her real jewellery in the bank and goes out on the town in Fior's handiwork.

Elizabeth Taylor commissioned Fior to make a replica of her famous emerald and diamond brooch, while one of Britain's better-heeled dukes, after discovering that it would cost him £10,000 to insure some of his wife's jewellery for their holiday trip to Australia, decided to have a precise copy made. It cost him £5,000 but he had saved another £5,000 and, as he put it: "My wife has a ring she can go on wearing forever."

The Fior shops are at 27 Brompton Road, London SW3, and 31 New Bond Street, London W1.

IF YOU prefer your jewellery chunky, bold and ethnic amber may well be the choice for you. Back in May I reported that amber was the stone of the summer with Cobra & Bellamy kicking the amber season off with a spectacular selection of rich, raw and brutal pieces culled from the ancient fossilised forests around the Baltic Sea.

Since then the choices have proliferated and you can buy amber jewellery in many moods and at many prices. You can buy a small selection by mail order from Muftec Consultancy, 27 Coward Road, London SW14 7RY. There are amber rings (£23) and a good selection of earrings (ranging from £35 to £85) as well as bracelets (£35), brooches (£45 to £65) and an amber and fancy silver collar (£25). All the pieces use silver for the setting and all are made from amber found on the Baltic coast of Poland or Lithuania, each piece is hand-cut and hand-made. Write to Muftec for a brochure.

Next and most branches of John Lewis are selling well-priced pieces from the Goldmajor collection of amber jewellery – ear-rings start at £16.45 and for around £30 there is plenty of choice. At the top end of the range the mosaic necklaces are quite spectacular.

At Manguette, 20a Kenington Church Walk, London W8, a small but charming jewellery shop, there will be an exhibition of contemporary amber jewellery, September 15-23, with contemporary designers such as John Bowman, Gatto Bianco, Ashley Wheeler and Eileen Coyne. Prices range from £50 to £2,500.

If you want something to wear with your summer wardrobe you do not have to wait until September – Manguette always has a marvellous selection of amber pieces. Available now is the stunning necklace, above, designed by Eileen Coyne, made from Baltic amber, and selling for £785.

Lucia van der Post



FASHION

The bronze age sun worshippers take cover

What's new under the sun? Avril Groom visits Cap Ferrat where the mahogany-tanned beach bunnies are going the way of the dinosaur and the golden girls are changing style



Cotton and silk swimsuit, £105 from Fenwick, New Bond Street, London W1 and Harrods, Knightsbridge, London SW1. Cotton trousers by Issey Miyake, £200 from Browns, South Molton Street, W1.

EXTOLLING the virtues of a plain black swimsuit to the women around the pool at the Hotel Bel-Air in Cap Ferrat is likely to produce plain black looks. They take glamour in the sun seriously here and they know that, in the brilliant, bleaching light of the French Riviera, it is bright, or at least a bold monochrome, that looks right.

Minimalist is not a term recognised in the discreetly indulgent atmosphere of this cliff-top spot at the tip of one of the Cote d'Azur's wealthiest peninsulas. And these practised sun goddesses have a point. In their exuberant swimsuits, fringed pareos, fat Alice bands and jewellery, many of them look marvellous. As John Betjeman believed, good taste can be ghastly. On holiday, when fun and glamour are priorities, it can make you invisible.

The one way to ensure that a swimsuit oversteps the line that divides flamboyance from vulgarity is to wear it with a mahogany suntan. Below the Bel-Air's pool, in full sun on a windless terrace, the last of the topless beach bunnies anoint themselves with coconut oil and fry, storing up a future of health horrors and skin wrinkled like the dinosaurs which, in fashion terms, they have already become.

Catching the breeze round the pool above are the wiser golden girls who take refuge under the forest of white parasols that sprout beside each beach longer as the sun reaches its full height.

The loose shirts and sarongs that high-glamour swim ranges such as Gottex, Gileco Oberson and La Perla have long provided as part of their co-ordinated beach style are worn not just for propriety during lunch but as a matter of course in the heat of the day.

As many British stores seem to think that autumn arrives at the same time as the holiday season, finding such co-ordinates can be tricky if you wait, as many do, until



Nylon/Spandex swimsuit, £79, cotton pareo (as shown), £105, both by Gottex from a selection at Fenwick, New Bond Street, London W1 and Harrods, Knightsbridge, London SW1. Cotton trousers by Issey Miyake, £200 from Browns, South Molton Street, W1.

just before your holiday.

Harrods' swimwear department is there all year and has a full range of Gottex swimsuits and beach separates. Both Fenwick and Harvey Nichols have recently arrived stock which has not formed part of their sale. Debenhams' reasonably-priced (from about £30) high summer range will last throughout August. Six has just introduced its summer range and Issey Miyake's Splash collection of non-crease holiday pieces is also a new arrival.

These collections reinforce the pursuit of glamour with nostalgic, 1960s-inspired style - draping, ruching, underwiring, lower leglines and even skirt effects all play their part.

Fitness-conscious women on holiday take swimming as seriously as sunbathing and even ruched chiffon is now water-worthy.

The most starchy-clad Bel-Air resident can safely entrust herself to Pierre Grünberg, the swimming instructor whose way of teaching the water-shy by calmly and firmly making them put their heads under water and control their breathing has made him more famous than his glittering pupils. Women, he says, hate getting their hair wet but these days they have no excuses: floral bathing cap and turban are hot fashion items.

Jewellery is also part of the glamour canon and gold is flattering to a golden skin. Jewellery, like the tan, is toned down this year, to a substantial but discreet chain or bracelet of the real thing to wear by pool or beach and a matt gilt costume jewellery bangle to jangle at lunch. Mappin and Webb's Spirit of Gold British-designed collection is an interesting source of well-priced pieces.

Make-up by Christian Dior, including Sun Shower Ombré Express waterproof eye shadow, Moonlight nail enamel and Sheer Cool Rouge Collection lipstick. Pictures by Tony Boase at the Hotel Bel-Air, Cap Ferrat. Flights London Stansted to Nice courtesy of Air UK.

Pierre Grünberg's individual swimming lessons are £25 (£20 for 40 minutes for those staying at the Bel-Air. He will be holding swimming clinics at the Lygon Arms Hotel, Broadway, in Hereford and Worcester, November 4-6 and the Savoy Hotel, London, November 9-12. Three 30 minute lessons cost £30 each. Telephone 071-872-8080 for details.

Pilmsolls by Superga, £34.95 from Russell and Bromley. Straw hat, £35 from The Hat Shop, London and Glasgow. Glass beads, £24.95 from Liberty, Regent Street, W1.



Spandex chiffon swimsuit, £99, polyester shirt, £199, both by Gottex from a selection at Fenwick and Harrods. Sunglasses by Hardy Amies, £24.95 at Harvey Nichols, Knightsbridge, SW1.



Spandex swimsuit, £75, stretch silk sarong, £370, both from Gucci, Old Bond Street, W1 and Sloane Street, SW1. Gold necklace by Jo Godwyn at County Classics, £2,200 from Mappin and Webb. Earrings, £14.95, bangles, £25.95 and £9.95, all from Fenwick. Sunglasses by Moschino, £52.50 from Harvey Nichols.



Polyester/elastane swimsuit by Six, £49.99 from Harrods, Selfridges, Dickins and Jones and House of Fraser. Rayon georgette shirt, £88 from Jigsaw.

Swimsuit, £16.95 from Fenwick. Pearl-studded bag by Judith Leiber, from a selection at Harvey Nichols, Mappin and Webb and Asprey.

Fading appeal of bright colours

Jane Mulvagh looks at the growth of a subtler, kinder aesthetic of fabric dyes

SITTING AT Henley a few weeks back I listened to two septuagenarian oarsmen discussing, with a gravitas that verged on the comic, the comparative pinks of their Leander club socks. "Marvellous shade", one acknowledged, pointing at the other's flamingo-hued ankle, and continued, "the trouble is, mine are new and still look rather garish even though I laid them out on the lawn in the sun and rain for the last two weeks." His companion gravely nodded in sympathy.

The issue, of course, was fading. No self-respecting Leander man wants to be seen in a brand new pink blazer, tie or socks, for long-standing membership of the sport's inner sanctum speaks volumes. But the faded socks, while losing none of their piquancy, did look a good deal better.

The incident reminded me of a tip I read in Lady Diana Cooper's memoirs, *The Rainbow Comes and Goes*. Whenever she redecorated one of her homes she would lay the new upholstery and curtains out on the lawns leaving the elements to undermine the manufactured

brightness. Even the most zinging Bloomsbury colours were toned down, ridding the aniline dyes of their harshness. Synthetic aniline dyes were invented in 1841 by the chemist G. J. Fritzsche. By the 1860s they were being mass-produced for dress and interior decoration and reds and purples, historically the most expensive colours to produce, became widely available. The Victorians latched on to their brightness with glee because it had once been a sign of wealth and it became highly fashionable among the *nouveaux riches* merchants to have mind-bogglingly bright homes and clothes.

William Morris, the artist, led the inevitable reaction. He experimented with natural dyes, particularly favouring indigo and madder because they faded beautifully, reminding him of the Medieval tapestries that he so admired.

Sadly, apart from a few side-

tracks by craftsmen and aesthetes, garishly bright dyes have dominated this century's palette, culminating in the shocking pink, vibrant tangerine and other day-glo colours that fought for our attention and our purses in the late 1950s. In recent years dye manufacturers have actually prided themselves in creating colours that will not fade and celebrities such as Jeff Banks advertise the advantages of detergents that do not fade clothes in the wash.

Thankfully a new colour aesthetic is emerging of a subtler and kinder sort. Some seek it in the faded charm of vintage clothes or Grunge, others prefer the subtle and rich (rather than bright) colours and textures of designers such as Issey Miyake and Romeo Gigli who are interested in the dye processes of India and the Far East where natural dyes are still widely used.

It is rich, rather than bright, colours that fade the most beautifully and it is a faded richness that tends to flatter northern European complexions more than Matisse brights or those mushy "pastels" served up in chain stores. And many would argue that muted rather than poster-paint brights look more refined. But

sadly the mass market manufacturers are reluctant to pumping out these flat, hard colours that defy fading as natural dyes are so expensive.

At a cottage industry level natural dyes are less harmful to the environment but they are impractical on a commercial scale because, according to the colour chemist Brian Burdett at Shirley Technology (part of the British Textile

Technology Group), "the planet cannot grow sufficient natural dyes to meet our needs and the application of natural dyes needs chemical additives that are more harmful than synthetic dyes."

Instead, his team is working on a cross between natural and synthetic dyes, using micro fungi which produce pigments. The idea was born when one of them noticed the colourful

fungi that developed on the foam of home-brew beer when it went wrong. Its appealing colour would dye the plastic container and was difficult to remove.

Research revealed that mildew and other micro fungi can produce amazing colours. The project has succeeded in creating colour pigments in cool conditions, which require neither heat nor chemical addi-

tives. With the application of environmentally-sound chemistry they will soon produce a commercially viable dye. I hope it fades with charm.

Meanwhile Eric Bremner at Laura Ashley has also tuned into this colour-tempering aes-

thetic. He will be introducing a mechanised fading system in the company's printing works in Wales to recreate that old-worldly look that so many admire in old fabrics.

This shift in aesthetics can do no harm to the environmental movement which is trying to encourage us to get over our newness neurosis. Perhaps we will all concur with the rarified sensibilities of Lady Diana Cooper and my Leander friends - allowing the colour of our clothes to age gracefully.

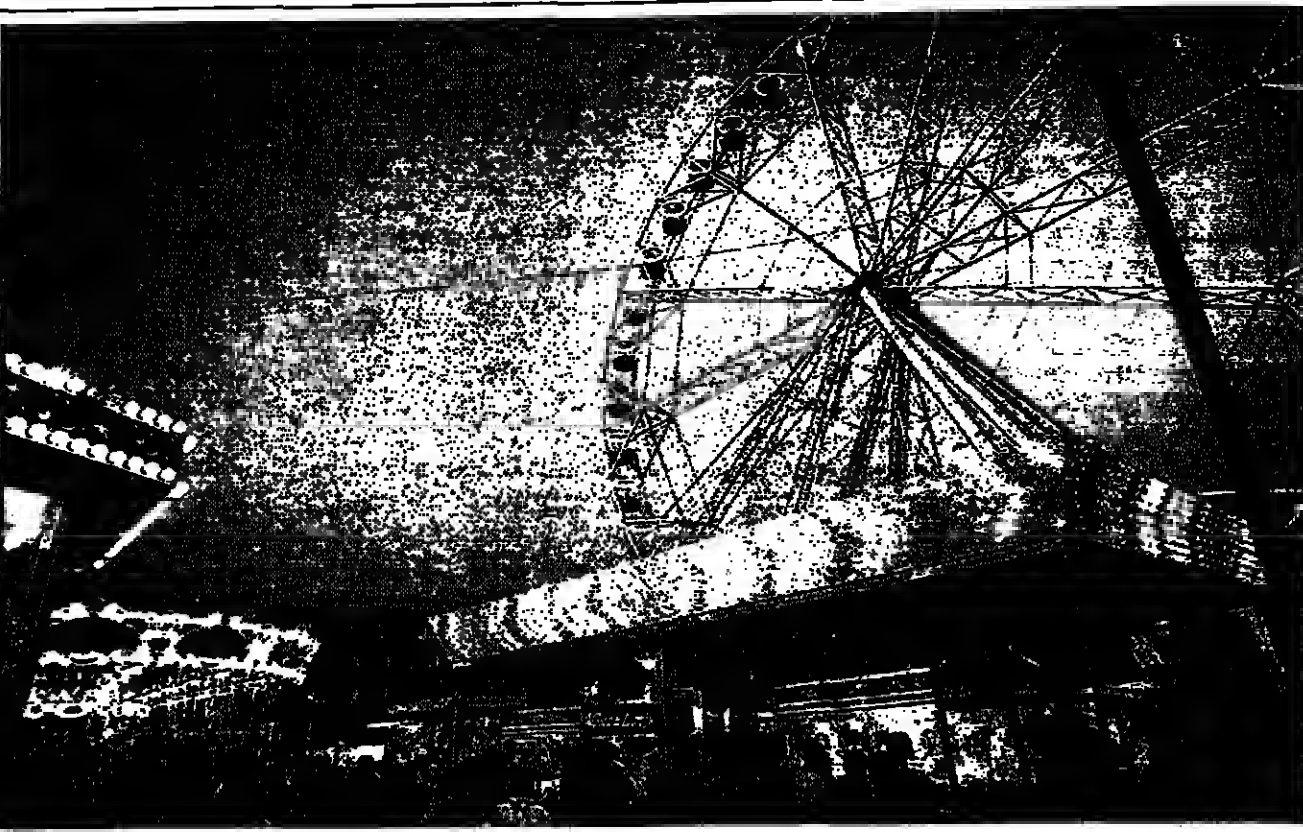
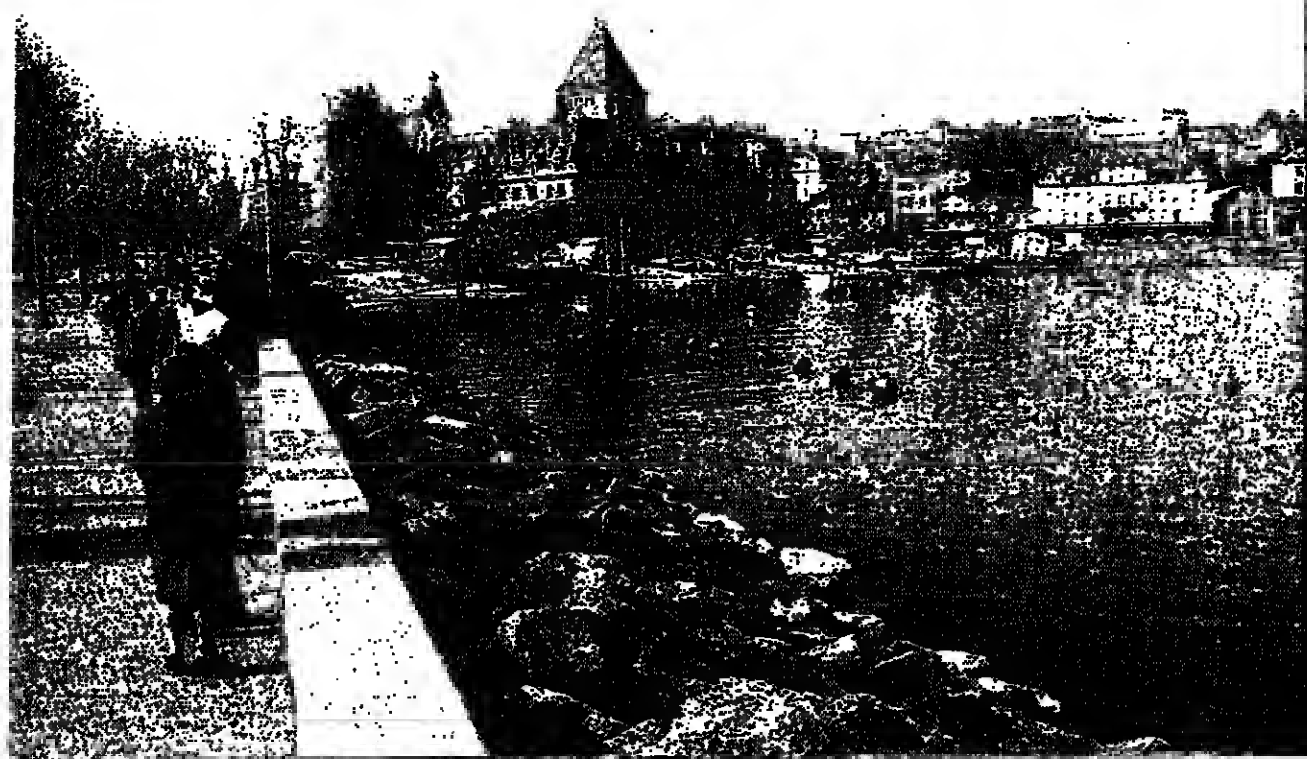
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Much of the charm of The Caumny of Apelles by Martin de Vos lies in the faded richness of the robes

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PERSPECTIVES



Life in the borderlands: the tranquil surface of Ouchy in Switzerland, a country where minorities warn of "linguistic cleansing", and a fairground in Luxembourg, the smallest and perhaps the happiest of the buffer states

An English wanderer on the fault line

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German-speaking region finds itself as a result of the first world war, within the borders of a non-German nation state. There too the spoken language is a dialect, if anything less easily understood than Alsatian by a visitor from Germany.

But no one in South Tyrol tries to tell you it is a separate language "related to German." On the contrary, the majority unhesitatingly identify themselves as German-speakers and exercise their right to have their children educated in that language. They have to learn Italian as their first foreign language, but this is reciprocated by the Italian-speaking minority, who are obliged to learn German.

Every street and place name is written up in both languages, and it is actually the German-speakers

to Italianise the South Tyrol by forced assimilation and colonisation. The local Germans, on the other hand, were largely spared any association with Hitler. It was only in 1943, after Italy switched sides, that Hitler annexed South Tyrol.

Before that, in 1939, he had agreed with Mussolini that each South Tyrol family should be given the choice (*die Option*) between emigration and complete Italianisation: an episode still remembered with great bitterness. After the war Austria, as an independent "liberated" state, was able to negotiate an agreement under which Italy allowed those who had emigrated to return, and promised regional autonomy. Although this agreement was not fully implemented until 1972 (after a period of low-level terrorism in the 1960s) it put the problem in a legal and psychological context different from that of Alsace.

One noticeable thing about my route was that it lay not only well inside the *times* of the Roman empire, which ran along the Rhine and the Danube, but also outside the *Staatsgrenze* of present-day Germany. In fact I did make two day-trips into the federal republic, but they were rather in the nature of pilgrimages: to Aachen, where Charlemagne is buried, and to Trier, which was the capital of Roman Gaul. Both are today, and have been for many centuries, purely German cities. The fact that the linguistic frontier is located south and west of them testifies to the thorough Germanisation, in the Dark Ages, of what had been Roman frontier provinces.

That today's political frontier passes so close to them testifies to the politico-military success of France, and failure of Germany, in modern history. The French state expanded north and east into German-speaking territory during the 16th and 17th centuries, when Germany was divided and weakened by the Reformation and the Thirty Years' War. The creation of a strong German state in the late 19th century came too late to reverse this process, although its attempt to do so was defeated only with terrible bloodshed, in three successive Franco-German wars.

But while the French state absorbed significant numbers of German-speakers, it never incorporated all the French-speakers in Europe, except for a brief period after the French revolution. Such an aim would have meant little to Henri II, who occupied Metz in 1552,

or even to Louis XIV, who gave France more or less its present frontiers. To them land might be of strategic or economic interest, but the language spoken by its inhabitants among themselves was of little consequence. Educated people could be relied on to communicate in a language of high culture - Latin, or later French - whatever their mother tongue might be.

In the Thomaskirche in Strasbourg is a magnificent sculpture by

France,

jouit d'un doux repos après sa délivrance. [This country laid waste under the yoke of France enjoys a sweet repose after its deliverance.]

For both sides to claim victory is not unusual. What interested me was the linguistic cross-over: Saxe, a German princeling, devoted his life to winning land and glory for the king of France, while the Belgian poetaster found it equally nat-

embourg, rather charmingly, the "département des Forêts."

But France had to retreat after Napoleon's defeat. In the half-century that followed, the three buffer states of Belgium, Luxembourg and Switzerland emerged in their modern form. In all three both French and German are spoken, alongside other languages, but the form of coexistence is different in each case. Luxembourg is the odd one out, the smallest and perhaps also the

most sensitive but signposts and street-names sometimes the most symbolic. French-speakers believe (though official statistics say the opposite) that German is gaining ground at the expense of French, and many of them have latched on to what is awkwardly known as "the principle of territoriality" in an attempt to stop it.

This means that the local majority has the right to determine the language that can be used in courts, schools and official notices. Such is already the practice in many parts of Switzerland, and there is now a proposal to have it enshrined in the constitution.

That looks uncomfortably like a "Belgification" of Switzerland. Not surprisingly, some Swiss legislators are having second thoughts. Fulvio Caccia, an MP from the Italian-

speaking Ticino, worries about the loss of individual freedom implied in the territoriality principle, and fears that it "contains within it the germs of linguistic cleansing."

The echo of "ethnic cleansing" in former Yugoslavia is, of course, deliberate. By that standard Switzerland and even Belgium have done well, since they have largely avoided violence in working out their differences. Whatever happens to Maastricht and the EEA, it would be unduly alarmist to predict new wars anywhere along the Roman-German frontier. But the lack of real communication across language barriers, even within cross-cultural entities like Switzerland, remains striking.

At Salgesch, where French gives way to German as you go up the Rhone valley, I had two conversations with two waitresses in bars less than a mile apart. One spoke French, the other German. Neither knew the other's language, nor saw any need to. "Either they speak French, or we make do with gestures," said the French one. "Oh yes," said the German counterpart cheerfully, "we understand each other all right, *mit Hand und mit Fuss*." And she mimed, with clenched fist and outstretched foot, the exact nature of the relationship.

The lack of real communication across language barriers remains striking

The frontier testifies to the success of France, and failure of Germany, in modern history

who are now contesting this, on the grounds that many of the Italian names are "artificial," invented under Mussolini. The administration is bilingual, with fixed quotas of jobs at various levels for the different language communities. The province enjoys broad autonomy, and the German-speaking Südtiroler Volkspartei is permanently in power. There is even an open, if not too serious, nostalgia cult for the days of Austrian rule: in a bookshop in Merano (Merano) I was able to buy a 1993 Franz Joseph calendar, inscribed "Dem guten alten Kaiser zur Erinnerung." [In remembrance of the good old Kaiser.]

Why are such things possible in Italy, but not in France? Because Italy was on the losing side in the second world war and because the German identity of South Tyrol is associated with Austria rather than with Germany. Whereas in Alsace the moral burden of association with fascism fell entirely on Germany, obliging the local population to suppress their German identity and proclaim their Frenchness, in South Tyrol it fell, if anything, more heavily on Italy.

The Italian elite were anxious to dissociate themselves from Mussolini's policies, including his attempt



Pigalle: the mausoleum of the Maréchal de Saxe. It shows France in tears, trying to hold back the marshall from his tomb. Her banners fly victoriously aloft, while her feet - lion of Holland, leopard of England, eagle of Austria - are hurled down wards in defeat. Saxe was the main French general in the war of the Austrian succession, in the 1740s.

Oddly enough in Brussels, in the Musée Communale, there is a print celebrating France's defeat and Austria's victory in that same war. It shows Charles de Lorraine, the Austrian governor, entering the city, and declares that "Ce pays désolé sous le joug de la

France" in French couplets.

Fifty years later things had changed. The French "nation" sprang into existence, got rid of its king, and set off on a crusade to liberate the rest of Europe. But while more distant and indubitably foreign countries were turned, first into sister republics, then into satellite kingdoms, France itself also expanded, especially into areas where French was spoken. Brussels found itself in the "département de la Dyle." Namur in the "département de Sambre-et-Meuse"; the Swiss Jura became the "département du Mont-Terrible," and Lux-

embourg, rather charmingly, the "département des Forêts." But France had to retreat after Napoleon's defeat. In the half-century that followed, the three buffer states of Belgium, Luxembourg and Switzerland emerged in their modern form. In all three both French and German are spoken, alongside other languages, but the form of coexistence is different in each case. Luxembourg is the odd one out, the smallest and perhaps also the

happiest. It has its own national language, which is related to German and which everybody speaks. But nearly everybody speaks French and German as well. French tends to be used for official purposes, German for more informal ones. There seems to be no sense of compulsion about it, and no one takes offence at being addressed in one language rather than another.

Things are different, alas, in Belgium, which has just changed from a unitary state into a federation based on regions and linguistic communities. Flanders is Dutch-speaking, Wallonia French-speaking, and you know at once which

The appeal of a narrow view of life

Keith Wheatley looks at the revival of Britain's canals and their colourful history

DEREK AND Elizabeth Bradley walked the tow-path of the River Trent with purpose. Ahead of them stretched nearly half-a-mile of boats, the highest inland waterways show ever held in Britain; but the Bradleys only had eyes for canal narrow boats.

"I love the peace and sense of history on the canals, and the wild flowers going past so slowly at eye-level," says Elizabeth. "My husband is coming up to retirement, so we're here to look for a boat."

So were many other people. According to Stephen Goldsbrough, chairman of the Canal Boat Builders Association, the market is growing at a pace to make the recession-hit marine industry envious. Eight years ago the association had 40 members. Constructing narrow boats was a folk art almost on a par with coracle-building. Now there are 400 members, launching over 1,000 new narrow boats each year.

Notions of "camping-out" quickly vanish once aboard a modern vessel. "Anything you have at home you can put in a narrow boat," says Goldsbrough. "We've just done one with a complete client office equipped with computer and fax. Another client plans to spend a year touring the canal

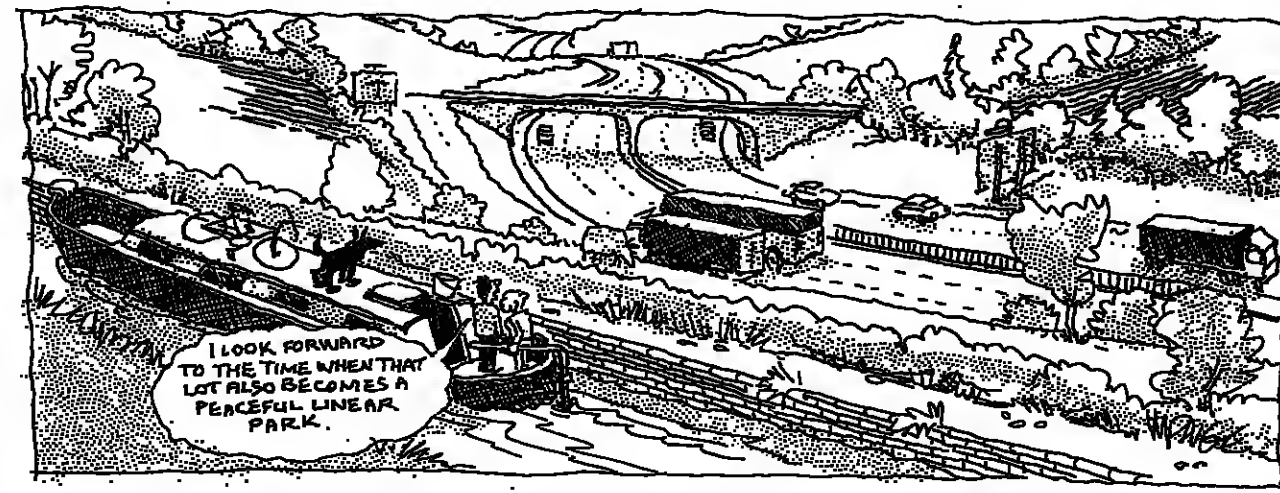
system painting in water-colours, so one end of his boat is a studio with big skylights."

Exactly 200 years ago Britain's fledgling canal system was enjoying a similar boom, although disapproving commentators of the time called it a "mania." In 1793 there were 62 canals in various stages of construction, one-third of all those ever built.

As canal enthusiast Anthony Burton chronicles in his new book, *Canal Mania* (Arum Press, £18.95) speculators drove prices up in a dizzy spiral. Newspapers reported that £140 shares in the Birmingham Navigation company were soon selling for over £1,000.

In 1792 prospective investors in the Grand Junction Canal were invited to gather at an inn in Stony Stratford. The excited crowd was so large that the meeting had to be moved to the parish church. A total subscription of £250,000 was needed but these eager "parishioners" subscribed over £1m.

A fortnight later a similar meeting to fund the Leicester shire & Northampton Union



overflowed even the town's church, and the meeting was adjourned to a nearby field. London-based investors employed agents who crisscrossed the country on horseback to give them a flying start on each new canal scheme.

Parliament, remembering the South Sea Bubble, anx-

iously debated canal fever. Members wondered whether the English countryside would not soon be more water than land. A motion was tabled proposing that canal construction be stopped at harvest time, since so many farm workers were being lured off the land to work as navvies.

The launch-pad of this feverish activity was the traditional grand tour of Europe by a young English aristocrat, the Duke of Bridgewater. For him the highlight of his tour was a visit to the Grand Canal of Languedoc (now known as the Canal du Midi), completed in 1681.

Voltaire had described the canal as "le monument le plus glorieux par son utilité, par son grandeur, et par ses difficultés." It was 130 miles long and contained all the features later found in the British system: aqueducts, locks and a tunnel. To a mine owner such as Bridgewater, the applications

for moving his coal to market were obvious.

In 1760 Parliament gave approval for a canal to link the dual collieries in Worsley with the factories of Manchester, half-a-dozen miles away. A young self-taught engineer, James Brindley, was engaged for its construction, which in turn nearly bankrupted the duke before it became a revenue-producing project.

The rest is history. Within 50 years Britain was a spider's web of linked - or parallel, and competing - canals. They flourished briefly as a commercial freight system. But competition from the railways limited demand and motorised road transport killed it.

As recently as the 1950s and early 1960s, canals were being filled in and abandoned. Since then numerous groups, aided by the British Waterways Board and enlightened local authorities, have reversed the decay. Britain's "lost" waterways are being revived.

Plans are in hand to restore nearly all the remaining 100 miles of disused canals owned

by British Waterways. It will complete a network stretching from Taunton in the south-west to Lancaster in the north.

Landscape, wildlife and industrial archaeology make the canal system a phenomenon almost better-viewed as a linear national park. "Slightly more than 50 per cent of the UK population lives near a canal," says Bridget Atherton of British Waterways. "They're not just for the enthusiast with a boat. Canals are so accessible. You don't need a large sum of money to walk along the towpath and enjoy it."

Stephen Goldsbrough, who took orders for six narrowboats at an average of £40,000 apiece during the Inland Boat Show, says that with around 23,000 boats on over 2,000 miles of waterway, there is still plenty of potential for growth, in the sense of physical space. Whether the intensity of access at particular spots may need regulating is another question.

"We're all of a sudden opening up a 200-year-old system to numbers of people that it can't really cope with," he says. "Tow paths, for example, built to cope with a dozen horses a day, are being worn away in some places. One looks at the Lake District spending money to dissuade mountain bikers from going there and it does cause you to wonder."

SPORT

Formula One sees trouble in the mirror

The grand prix elite are desperate to win back fans and sponsors and head off a threat from north America. John Griffiths explains

LAST weekend, at the German motor racing grand prix at Hockenheim, the elite teams of Formula One finally accepted that they had been overtaken by market forces.

At the end of a six-hour meeting during which, in a rare spirit of compromise, "every team gave up something", according to championship-leading team principal Frank Williams, they agreed to abandon, from the start of next season, much of the technology which has long been claimed as a large part of the sport's raison d'être.

Fisa, motor sport's world governing body, still has to ratify the deal. But Max Mosley, Fisa's president, believes the result of the leading teams' sacrifice will be cheaper, closer and more embracing racing.

In the Fisa scenario, more teams will be able to afford to compete effectively and drivers will once more be in total control of their cars, rather than sharing them with electronic systems. The leading teams had little choice. To have rejected the deal would have been to plunge grand prix racing deep into crisis at a time when the globalisation of television is allowing potential rivals for sponsors' dollars to emerge.

The most notable rival is north America's IndyCar championship in which last year's grand prix champion, Nigel Mansell of Britain, now competes. Even Frank Williams acknowledges that F1 needs to offer spectators more.

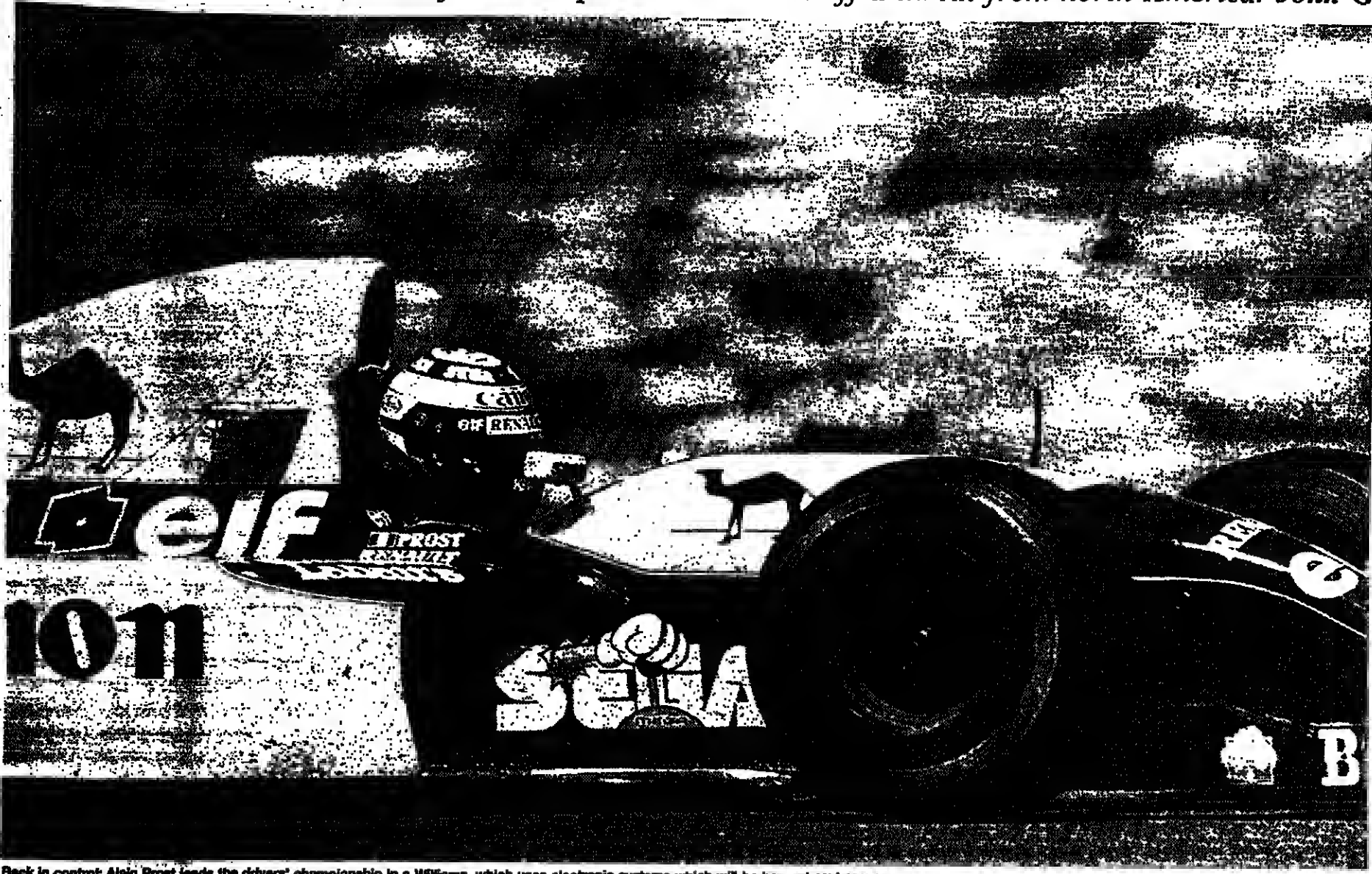
Critics argue that the sport offers poor value for spectators. The racing, they say, is often processional, admission prices are excessive and there is an unacceptably elitist attitude towards the paying public.

"Admission and a grandstand seat at Silverstone this year cost at least £117," says one observer closely involved with IndyCar. "At Laguna Seca (an IndyCar circuit) you simply can't spend more than \$75 (\$50.30)."

"For that you get to see, and maybe speak to, the drivers and watch the crews working on their cars. At Silverstone I almost felt guilty being inside the paddock watching all these guys, who'd paid all that money, with their noses pressed to the mesh fence and hoping for maybe a glimpse of one of their heroes."

One small sign that grand prix racing is already responding to such criticism was the gruelling parade of drivers reinstated after many years at Silverstone. But the sport still has a long way to go.

The attendance at Silverstone was 60,000 - half last year's crowd. Admittedly, Mansell was absent, recession in the UK had taken



Back in control: Alain Prost leads the drivers' championship in a Williams, which uses electronic systems which will be banned next season

another year's toll and attendance at other grands prix have not been as high. Nevertheless, the spectacle at Silverstone was enough to lure drivers at a time when sponsors are more determined to gain value for money.

Mosley says that the cost savings of the technology ban should be substantial. He estimates that some changes introduced at the start of this year, such as fewer permitted tyres and reduced practice times, will have saved each team between £1m and £2m by the end of the season.

He calculates that the new rules will save teams between £2m and £3m a year. The combined changes should thus lead to cost savings of 25-50 per cent. The benefits will be greatest for the smaller teams.

"At the moment, that team can go

to a potential sponsor and almost certainly will be asked if it's got 'active' suspension. It's obliged to say no because it can't afford it, and the potential sponsor won't back it because it hasn't got it. That kind of problem will disappear with the new rules," says Mosley.

Almost certainly, the technology ban will have little or no effect on the outcome of future grands prix. Williams, McLaren and their ilk are still likely to be winners because they will continue to work more effectively and efficiently with the technology and resources available.

At best, the gap between the first and last cars will close. But Frank Williams says Fisa may have miscalculated on technology costs. "In reality we haven't spent a great deal of money on our technology; it's been mainly brain power."

And he warns that there is a potential downside. A lot of companies who currently sponsor grand prix racing, such as computer and electronics groups Bull (Williams) and Hewlett Packard (Benetton) are heavily technology-based.

"Clearly they are not pleased and will have taken note," says Williams. Should companies like these reduce their involvement, grand prix racing is likely to become more dependent for its funding on companies with no direct involvement in motor sport or the motor industry.

Furthermore, sponsors may seek to impose on teams cost-containment of their own. Warning signals are already flying. Philip Morris, whose Marlboro livery is synonymous with that of McLaren, is one of motor sport's most consistent supporters.

In the last few weeks Walter Thoma, president of Philip Morris Europe, has made thinly-veiled criticisms of those leading teams, by implication McLaren included, who have sought to preserve the status quo.

"It is important that we understand the need for cost containment in Formula One. There are one or two self-interested groups within the sport that pay no attention to the world recession."

He also maintains that there must be containment not just of the teams' costs and their technology, but of the whole infrastructure. "Why must there always be three-day events? Can some not be run on a Saturday and a Sunday? Why not run shorter races? How much shorter should they be? Is the show pricing itself ahead of inflation?"

... when we look at the future, we must consider the totality and not just isolated issues."

On the surface, when compared with IndyCar, grand prix racing certainly appears self-indulgent. As David Peeters, publisher of *IndyCar* 93 magazine, points out: "The very top IndyCar teams are on budgets of maybe \$15m a year, perhaps one-fifth of a top grand prix team's. And you can buy it all off the shelf from people like [UK-based] Lola for chassis and Cosworth or Ilmor for engines. You're talking about maybe \$500,000 for the car, \$50,000 for an engine - and basically that's it, you can be out racing. It should be about two drivers pitting their skills against each other, not sitting there on the grid worrying about which of the computer programmers programmed their traction

control that morning."

Peeters' belief that IndyCar racing is more exciting than grand prix appears to be shared by television. ITV claims that UK audiences of 3.5m watch its Indy offering each week. That begs the question of how big the "Mansell factor" is, and whether interest in IndyCar racing outside north America will disappear when Mansell retires or returns to F1.

A litmus test of whether Indy really is a potentially serious rival may come in October. The IndyCar "circuit" will use this weekend's championship round in Michigan to finalise an announcement, likely to be made next week, that they intend to stage a non-championship race, Mansell included, at Brands Hatch on October 10.

There are some difficulties; under arrangements within Fisa, Indy cars can race only on ovals if they venture outside north America. Brands Hatch is not an oval, but few expect Fisa to stand in the race's way; the exercise is too fascinating for all concerned with motor sport. Will it be a sell-out? Will it, in the end, be as nerve-wracking "in the flesh" as its proponents claim it is on television?

As the architect of the grand prix technology ban, Mosley says he does not see IndyCar as a threat. Sponsors' budgets have been trimmed back this year and face further cuts in 1994. The prospect of sharing the cake with an emergent international rival should be worrying. But Williams says there is little "cross-pollination" in terms of sponsorship and that IndyCar will remain too parochial to impinge on grand prix's financial patch.

In any case, he says, there are "vast numbers of substantial potential sponsors of F1" which grand prix has not yet learned how to tap. In spite of grand prix's slick public image, he says, its marketing skills still lag far behind its engineering capabilities.

In Mosley's view, F1 has been saved from itself by banning, before they arrived, such innovations as computer-controlled four-wheel steering. But once the recession is over, Mosley himself wants the technology chase to continue.

He wants to rearrange the technical regulations so that research goes into areas such as fuel efficiency. He wants to see intensified work on aerodynamics, particularly in the area between the bottom of the chassis and the ground.

He wants to see technological development of fuels and fuel efficiency. Down this route, he argues, lies not just better racing but a contribution to the world's energy problems, and the continuing support of its motor industry.

FOOD AND DRINK

Cookery/Philippa Davenport

Hearty fare to bring home the harvest

THE LANES are alive with the sound of machinery as combine harvesters chop their way through the fields, devouring the grain rapaciously all day and half the night. Clank, march and munch in a blaze of headlights.

Although the manner of harvesting has changed greatly down the years, harvest foods remain much the same. Lunch in the fields, now as then, usually includes bread, cheese and some sort of pickle or relish. There are meat pies for the fortunate and fruit cake for all, washed down with home-made lemonade or ginger beer.

At the end of the day, as likely as not, there will be plenty of meat and rich gravy. It is comforting and sustaining for the workers and a sensible choice for the cook because it is easy to prepare, can be left to bubble gently unattended, and will keep without spoiling if timetables overrun.

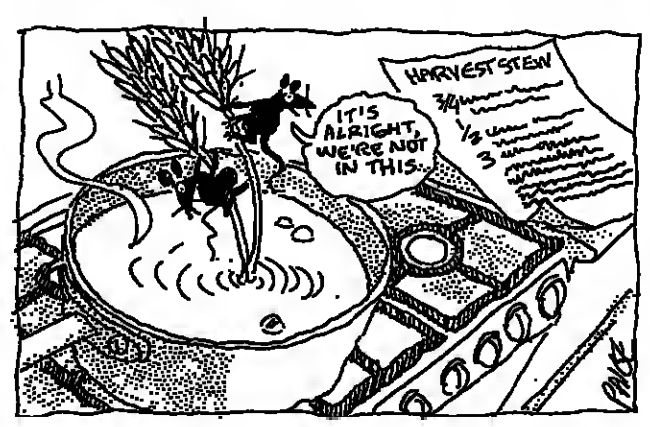
Rabbit is the classic choice of

meat, not least because this is the season when they are best to eat and the farmer is keen to take his revenge. After idle months devoted to growing fat and sleek on his corn, the safe world of the crop is felled and rabbits are forced to flee the scene of their crimes. It seems only just that they should run into the sights of waiting guns before being popped into the pot.

HARVEST STEW
(serves 4-6)

This is an old favourite given an aromatic new twist with lemon and fennel. Marinating makes sense, irrespective of the age of the rabbits. Not-so-youthful creatures will need tenderising and juveniles will benefit from added flavourings.

Ingredients: 2 rabbits grown plump on harvest corn, cut into neat portions (save the heads, rib cages, belly flaps and other trimmings for stock); 3 fennel bulbs weighing 8-8oz each, trimmed and cut into 6-8 wedges each (save the feathery fronds for garnish and add the other trimmings to the stockpot); 2 lemons (one separated into juice and zest, the flesh of the other chopped into tiny pieces); 1pt stock made from the rabbit and fennel trimmings; 5 tablespoons olive oil; generous ½ teaspoon fennel seeds, bruised; 2 garlic cloves, chopped very finely; 1 x 50 gram tin anchovy fillets, drained and cut into snippets; about 3 tablespoons chopped parsley, preferably flat-leaved.



Method: Make the stock and marinate the rabbit in three tablespoons each lemon juice and olive oil mixed with the

bruised fennel seeds, finely-chopped garlic and plenty of coarsely-ground black pepper. Leave in a cold larder for 24 hours, turning the meat occasionally.

To cook, drain the rabbit joints well, reserving the marinade. Dust with flour and colour in batches in the remaining two tablespoons olive oil in a shallow, heavy-based stewpan or flameproof casserole. Remove and reserve the meat. Then sauté the fennel briefly until streaked with gold. Set the fennel aside.

Pour on the stock, which should be hot, and stir to scrape up the flavoured sediment from the pan base. When the liquid is bubbling well, return the rabbit to the pot, add the marinade and the finely-chopped lemon. Bring to a bare simmer. Cover tightly and cook over the lowest possible flame for at least 1½ hours. If

dies go well with this. Alternatively, omit the anchovies from the garnish and partner the stew with a crusty loaf of home-baked bread and a pot of anchovy butter.

ANCHOVY BUTTER

Serve this, as described, with harvest stew or spread it on toast to eat alone or to slip under poached eggs or grilled tomatoes. Small pats of anchovy butter are also excellent for topping grilled steaks, for enlivening fish soups, and for anointing grilled fennel.

Ingredients: 4oz butter, at room temperature; 1 x 50 gram tin of anchovy fillets.

Method: Dice the butter and put it into a soup plate. Add the anchovies, cut into snippets, and mash them with the butter with a fork, gradually working in half the oil from the anchovy tin.

Pack the butter into a pot, smooth the top, cover, and chill until shortly before serving.

ON THE desk in the busy office of one of London's top chefs sits a pile of correspondence between the restaurant's solicitors and a Citizen's Advice Bureau and an envelope containing a week's wages and a P45 awaiting the return of a young chef.

The restaurant's head chef, who has a quite distinctive style, would be only too happy to hand these over personally if he could receive in exchange what he believes is rightly his: the copies of the recipes made without permission during this particular young chef's four-week apprenticeship.

In many other trades and industries this story could easily appear under the headings "industrial espionage" or

Scullery skulduggery

"theft of intellectual property" but in the catering business such phrases cannot be used. Recipes set restaurants apart and fill tables but it would take supreme arrogance to lay claim to "an original recipe".

Just by changing small amounts of the basic ingredients anyone can formulate another "original recipe".

Often what holds back young chefs is the lack of a repertoire of proven dishes. One answer could be to copy them.

So how can you protect your own recipes? Unless, as chef, you are going to make everything yourself, you have to share your recipes with your staff and, to maintain their consistency, put them down on paper or on floppy discs (word processors have been almost as big a boon for the busy head chef as the food processor for his commis chefs).

As head chef you must accept that you only achieved your exalted position by work first under a number of other chefs who were prepared to pass their knowledge on. On

the way up you can take advantage of the catering industry's high turnover of personnel. But once you reach the top this becomes less of an advantage and more of a hazard.

Chefs around the world try to protect themselves in two ways. The first is the trust that they show their staff and

Nicholas Lander on the odd case of the photocopied recipes

which they hope is reciprocated. In a busy kitchen - which may be densely populated from 8am to midnight seven days a week - it is hard to conceal anything. The names of your suppliers, your recipes and even your projected gross margins are open secrets. Equally, it is hard for a spy to find a quiet corner to scribble down the kitchen's

secret formulae.

But if you do manage this once you are unlikely to repeat the success. Although an impressive curriculum vitae helps secure promotion, it is not as important as a good reference. In their evaluation of their staff, chefs are frighteningly honest and always willing to air their opinions.

In this particular case, the head chef checked the applicant's references with her former employers and put her to work on a four-week trial period on the basis that, if a permanent position became available, she would stay for a minimum of a year. There were, initially, the usual difficulties, mainly to do with the speed of her work and one or two complaints from fellow chefs that she was spending too much time copying recipes rather than working from the master recipe file. When she was confronted, the apprentice said she had just copied basic pastry recipes rather than anything more significant.

The restaurant later deduced that the young chef had managed to copy approximately 150 of the restaurant's recipes by duping the rest of the kitchen into thinking she had the head chef's permission. She did this in the early evening when the proprietor went home between the lunch and dinner shifts. When the head chef, impressed by the applicant's obvious passion for bread and pastry, offered her a full time job she was therefore most surprised to be rebuffed. The apprentice would no longer commit herself for a year, as she had originally promised she would, and walked out.

The head chef was naturally hurt and saddened by his misplaced trust and mistaken professional judgment. When, shortly afterwards, he met fellow chefs including Albert Roux, Rowley Leigh, Simon Hopkinson and Alastair Little around the lunch table one suggested recourse to lawyers, which has yielded the return of some recipes, but the others could offer nothing more concrete.

Even the best kitchens, it seems, have failed to create a recipe that will replace trust in one's fellow man.

SOPHISTICATED Australians do exist. Two wines to seduce classicists intrigued, but still puzzled, by all the ballyhoo about antipodean vintages are subtle, smooth South Australian reds which will not jolt any lover of fine claret. Henschke's Abbott's Prayer 1990 (£11.64 from Lay & Wheeler of Colchester) is a gorgeous blend of Merlot and Cabernet that is quite ready to drink but utterly convincing for the end of the century, too. Greg Trott, of the Wirra Wirra winery, produces another top-quality, ecclesiastically-named Cabernet blend in the prize-winning form of The Angels 1991 (£7.99 from Oddhins). Decant and admire.

Whatever happened to Rioja? We all loved it in the 1970s when it was cheap; but now that emergent Spaniards have pushed the price up, Rioja has languished somewhat outside its native land. The Rioja Gran Reserva Club (managed by Adams of Southwold on 0502-724 222) is an attempt to expose some of the finest

mature Rioja to British palates. There is no membership fee but orders must be for a minimum of a case (although two mixed cases are available). Most refined and "modern" of the selection on offer until August 31 is Campillo 1982 at £17.2 a case - but do we want modernity of our Rioja? Rather more traditional in both flavour and structure is the fragrant Carlos Serres 1985 at £14.1. Bargain hunters might consider the wide range of "oaked" (although not necessarily barrel-aged) cheap Spanish reds. Victoria Wine's Casa Barco at £2.85 could do the trick for Rioja nostalgics.

Bravely ignoring vintage port prices in the saleroom, the shippers have launched the 1991s - and jolly nice they are, too. Of big shippers, only Taylor has declined to "declare," a decision presumably not unrelated to the fact that 1992 was the company's tercentenary year. Other promising examples at a recent London tasting included a well-priced Smith Woodhouse, a distinctive Nie-

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PROPERTY

The beauty that makes Wales so hard to resist

Gerald Cadogan finds cottages the best bet in a country closer to England than France

NEW roads make it easier than ever to reach Wales - from middle England, especially. With a short drive, you are in a foreign country where names are hard to pronounce and people talk and sing a language incomprehensible to outsiders.

Far closer to England than France, Wales is just as stimulating a change, although there is one hitch. If you are English, there is a chance that a tiny minority of Welshmen - who do not like English people buying second homes there - may burn your holiday cottage. Still, it happens less than it did a few years ago.

How do you avoid such a fate? As one Welshman told me: "Do not pay over the odds for your house so that you are contributing to a property market that many local people cannot afford. And do not arrive with a car load of groceries from an English supermarket. Use the local shops."

Occasional arson apart, the country is glorious. North Wales is like a miniature Scotland without the midgets and Anglesey flat like Ireland, with low stone walls around white-painted cottages. There is a noble parade of castles, ranging from the mighty creations that Edward I built at Conwy and Caernarfon to subdue the country to oddities like the Porthlwyth, erected last century on the profits of a neighbouring slate quarry.

On the A55 north Wales highway, it takes barely 40 minutes to reach Anglesey from Liverpool and Manchester, and the A483 connects with it to give a fast line for drivers from Oswestry, Shrewsbury

and points in England via the A5 and M54. West of Shrewsbury, the Welshpool bypass is about to open, while south Wales waits for the second bridge over the Severn to end delays at the present bridge on the M4.

Cottages are the best bet in Wales. Houses of manor, rectory or large farmhouse size are few and tend to be 19th century, while stately homes are still scarcer. This is because, until the industrial revolution, Wales never had the wealth that England enjoyed. Thus, grand houses were not built.

'Don't arrive with a load of groceries from an English supermarket'

For potential buyers, where better to start than the former chapel and chapel house at Darnall, between Llangurig and Rhydyfelin in the Wye valley of mid-Wales. On offer from Morris Marshall & Poole for £44,000, it could not be more Welsh. The stone chapel with slate roof has outline planning permission for conversion with the adjoining cottage as a single house. But use as licensed premises is forbidden.

From the same agent for £110,000 is a 1907 Arts and Crafts-style house in the middle of Llangurig Penybont. The price includes a coach house (if that is not sold separately for £25,000).

On the opposite (west) side of the Camharlan Mountains, Hafod Mansion Gardens in

Porthdyffryn 14 miles from Aberystwyth, has specimen trees and two acres of walled gardens. Price: £138,000, from Shearer and Morris. And in Cemmaes, the Machynlleth office of the firm offers the Georgian Aberhiraeth Hall with five bedrooms for £220,000.

South from Aberystwyth in the Corth valley, Knight Frank & Rutley has a farmhouse and two cottages at Edwinstford as three lots with fishing (two rods per property) on the river. The Corth is especially good for sea trout. Prices are £150,000 to £250,000.

In west Wales, Cliff House at Laugharne was re-built in 1886 after a fire. It has views across the Taf estuary and Carmarthen Bay to Pembrey Sands and Worms Head on the Gower peninsula while below, on the water's edge, is the Boathouse of poet Dylan Thomas. Agent Terry Thomas is selling it for £250,000. On the nearby Towy estuary, the same agent offers the Edwardian brick Piroath at Llangain for £205,000; it also has views of Carmarthen Bay.

Inland, near Abergavenny, Elstons has Pantybellian, an 1840 late-Georgian stone house with eight bedrooms, five bathrooms, walled garden, paddocks, and views over the Usk valley towards the Black Mountains. Near the Roman site of Caerleon and five miles from Usk is Llwyn Celyn (also Elstons), another stuccoed property with nine bedrooms but just three bathrooms. Both houses cost around £500,000, depending on how much land is included.

If you want to fish on the Usk, Mardy Cottage at Llanwenarth Cilia, near Abergavenny, is not a cottage but a house with half a mile of sin-



All this and Dylan Thomas, too... Cliff House at Laugharne, west Wales. The poet's Boathouse - not for sale - is at the bottom right

gle-bank angling. Halifax is the agent and the price around £185,000.

Llanarthlon, at Howey near Llandrindod Wells, is a brick and stone farmhouse on the Welsh borders. It is detached from its farmland and has only eight acres for £225,000, from Knight Frank & Rutley or Russell Baldwin & Bright. But up to 175 more acres, and modern agricultural buildings, are available if you want to farm.

In north Wales, Hillway is a 1930s seaside house with nine acres overlooking the Dwyryd estuary at Morfa Bychan, near Porthmadog. Gardens flourish in this sun trap and the price (from Jackson-Stops) is an attractive £185,000.

If you want high ground and a studio barn, the same firm offers Creua, at nearby Llanfrothen, for £175,000. A 7.25-inch railway, built by the present owner, runs round the gar-

den and is also available - but the locomotives are not.

Further inland is Hafod Tany-Graig, in Snowdonia national park. This substantial Victorian gabled house in seven acres of woods and garden is offered by Jackson-Stops for £245,000. Here, you can fish for trout in the river Edno, go for walks, climb mountains - and see what a beautiful country Wales is.

Further information from:
Elstons, Usk (0291-672 133); Halifax, Abergavenny (0873-855 141); Jackson-Stops, Chester (0244-323 361); Knight Frank & Rutley, Hereford (0432-273 037); Morris Marshall & Poole, Llandiloes (0636-412 567); Russell Baldwin & Bright, Llandrindod Wells (0897-824 915); Shearer & Morris, Abergavenny (0870-625 020) and Machynlleth (0654-702 472); Terry Thomas, Carmarthen (0291-335 330).



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Robin Lane Fox concludes that the sun is less of an enemy than many growers have feared

On either side of any divide, there are always firm exceptions. My point is that the frontier itself is arbitrary. Many good plants will flourish better in the open with water than in the half-light among another tree's roots. In both our kingdoms, human and vegetable, the most frequent reason for "preferring a shady place" is identical: drink.

Since an open car creates much more aerodynamic drag than a saloon, I thought 27 miles per gallon pretty good because most of my driving was either at speed on the motorway or in stop-start town traffic. The price is £13,300 which includes a power-operated top, windows and outside mirrors.

BOOKS

Reading behind the lines

Anthony Curtis looks at the revolution that is changing the face of the publishing industry

PUBLISHING, like other industries, is starting to pick itself up from the floor after the battering it received during the recession. Anyone who wants an up-to-date on what has been happening there during the past two traumatic years could not do better than to consult *Publishing Now*, edited by Peter Owen, one of the canniest, most durable and adventurous of the few remaining independent publishers.

Owen has assembled a team of contributors whose professional skills cover many different aspects of this complex business. Here are people from the new conglomerates alongside representatives of the old-style gentleman-publishers; and here are articles by those concerned with literary fiction, mass paperback fiction, illustrated books, academic books, children's books, feminist books, gay books.

In all these areas, the period has been one of far-reaching change, and perhaps the most significant has been the original paperback - a book which has its first, and possi-

bly only, edition to paperback. Owen's is one such, and the fact that I am reviewing it gives it parity of esteem with the new hardbacks on this page. That is something which publishers, particularly those of serious fiction, have been fighting to achieve for years.

Original paperbacks are not a new phenomenon, not even for literary fiction: imprints like Serpent's Tail in London and Polygon in Edinburgh having been publishing them for a long time. But, at the end of 1991 and the beginning of 1992, several companies with a long and distinguished tradition of literary fiction publishing, like Secker & Warburg, Chatto & Windus and Hamish Hamilton, began to publish original paperback fiction.

In an article called "The Death of the Hardback," Dan Franklin, the

head of Secker and Warburg, recalls the strategy of compiling a paperback fiction list with a distinct series identity, selling at £7.99 in a format midway between that of the average hardback and the mass-market paperback. Before the plunge was taken, the support of the booksellers - particularly Waterstones and Dillons - was canvassed and a positive response given. But there was still a fear that the books would be consigned to oblivion by the literary editors of newspapers and magazines.

"Without reviews," *(Franklin writes)* "the books would die. However, our fears were unfounded. Generally, each book has had at least as much review coverage as it would have received in hardback."

In the old days, a small hardcover sale of around 1,000 copies

was enough to establish a novel; if review coverage was favourable, there was the expectation of a mass-market paperback edition 12 months later. But this minimum

PUBLISHING NOW
edited by Peter Owen
Peter Owen £12.95, 175 pages

hardback sale can now be achieved only rarely. Ian Chapman, in his article on "Paperback Publishing," explains: "The view is that anywhere between a 4,000 and 10,000 copy sale at a midway price of £3.99, let us say, is better than a sale of under 1,000 copies at £15."

Clearly, it is too early to ring the death-knell of the fiction hardback - let alone the non-fiction hardback

in such areas as literary biography - but we are likely in the future to see more and more novels appearing first time round as "C-format" (ie, posh-looking) paperbacks.

A further phenomenon, that of marketing the book on a diskette that the customer inserts into a portable computer and reads from the screen, is not dealt with here. Yet, American publishers like Random House are already exploring this in association with AppleMac computers. *Jurassic Park*, *The Portrait of Dorian Gray* and *The Annotated Alice* are among titles on offer in this form.

It might sound ridiculous but there are certain advantages in having a book on disc. A paperback, however up-market, tends to foreclose on a reader unless he or she exerts pressure to keep it open. The

first two titles above would clearly be enhanced by the computer's graphics and, in the third, the footnotes are almost as great a delight as the text (and are embedded much more neatly in it on screen).

For couples in bed, where one partner wishes to switch out the light and go to sleep and the other to continue reading, the noiseless computer screen that casts almost no light beyond itself is the perfect solution.

Advances in electronic printing have brought about many fundamental changes - a technological revolution which is continuing. Some of the implications are dealt with by Robert Adkinson, of Thames & Hudson, who underlines the internationalism of the modern printing process. The co-edition - a book funded

jointly and published simultaneously in several different countries - remains of paramount importance for most art books. Colour reproduction, already at a high standard, is likely to improve further through "non-impact printing, with ink jets operating to pre-set co-ordinates controlled by computers."

The inroads made into the industry by computers are apparent throughout many of the articles. There are creatures like EPOS, which monitor the sales of stock in the chain-store bookshops; JANET, which gives librarians rapid access to information; and CARL, a document delivery service in Denver, Colorado, with which Blackwell's has formed an alliance.

Electronics do not do it all, though. Publishing still depends on human input from people like editors (Dan Franklin), publicists (Jacqueline Graham), agents (Giles Gordon), booksellers (Tim Waterstone), and last - but by no means least - authors (Peter Vansittart). These people all contribute lively articles to this stimulating book.

Israel feels the chill

AMERICANS, in one of their periodic moods of navel-gazing, have lost interest in abroad. With the end of the cold war, the US has lost a role and feels encumbered with an empire.

The mood of inattention has America's clients worried. Israel, which since 1967 has slipped (against its better judgment) into an unhealthy degree of diplomatic, economic and technological dependence on the US, suddenly feels a disturbingly cool breeze from Washington. Once, the Israelis used to worry about US diplomatic hostility; now, they notice something even more menacing - lack of interest.

David Schoenbaum's is by no means the first history of the American-Israeli relationship, and yet another requires some special, saving grace. He has read scores of memoirs, inter-

THE UNITED STATES AND THE STATE OF ISRAEL
by David Schoenbaum
Oxford £30, 415 pages

viewed participants, and dug out diplomatic documents. He does not, however, use Hebrew sources - a strange deficiency in a book on such a topic published by a respectable university press. As a result, many central issues are skirted or ignored.

Then, too, the book mentions only fleetingly one of the main engines of American support for Israel, the Israeli lobbying organisation in Washington. Called the America-Israel Public Affairs Committee (AIPAC), it rivals the National Rifle Association with its skill in mobilising support in Congress and the bureaucracy.

Who should America continue to support Israel? Until a few years ago, the Israelis could present themselves, plausibly, as formidable regional allies.

Now, though, the spectre of the evil empire has been laid and the US is no longer in the market for local exorcists. The Gulf war - in which the Israelis were told, humbly, to put up and shut up, provided a vivid illustration of their position in official Washington eyes.

Digging deeper into their arsenal of used-up arguments, Israeli spokesmen boast of the "shared values" of the two countries. But the whole world now loves democracy, chicken McNuggets and apple pie, and it is by no means obvious to the American taxpayer that Israel has a premium over other supplicants at the table.

Then, of course, there is the real reason for US involvement: the American Jewish community. The British For-

eign Office has long regarded it as perverse and unnatural that US foreign policy should pay attention to the views of this large and influential internal constituency.

Ernest Bevin, Labour's foreign secretary after the second world war, ascribed his personal failure at the end of the Palestine mandate to the unwarranted interference of the American Jews in a matter he regarded, with an almost perverse unreality, as none of their business.

Like it or not, though, the bond between the Diaspora and Israel was and is a political fact one that Bevin and his successors since discounted at their peril. From time to time over the years, the US State Department, like the Foreign Office, has read American interests differently and sought to steer policy away from support for Israel. But, since 1967, such deviations have always been rectified by the elected elements of US government.

American bureaucrats, like their British colleagues, used to regard such presidential or congressional busy-bodying as unconscionable interference in the diplomatic process, but they have by now learnt to live with it. So long as 6m American citizens continue, unfashionably, to maintain interest in a foreign cause, and so long as they are influential in political life, the US commitment to Israel is likely to remain unbreakable.

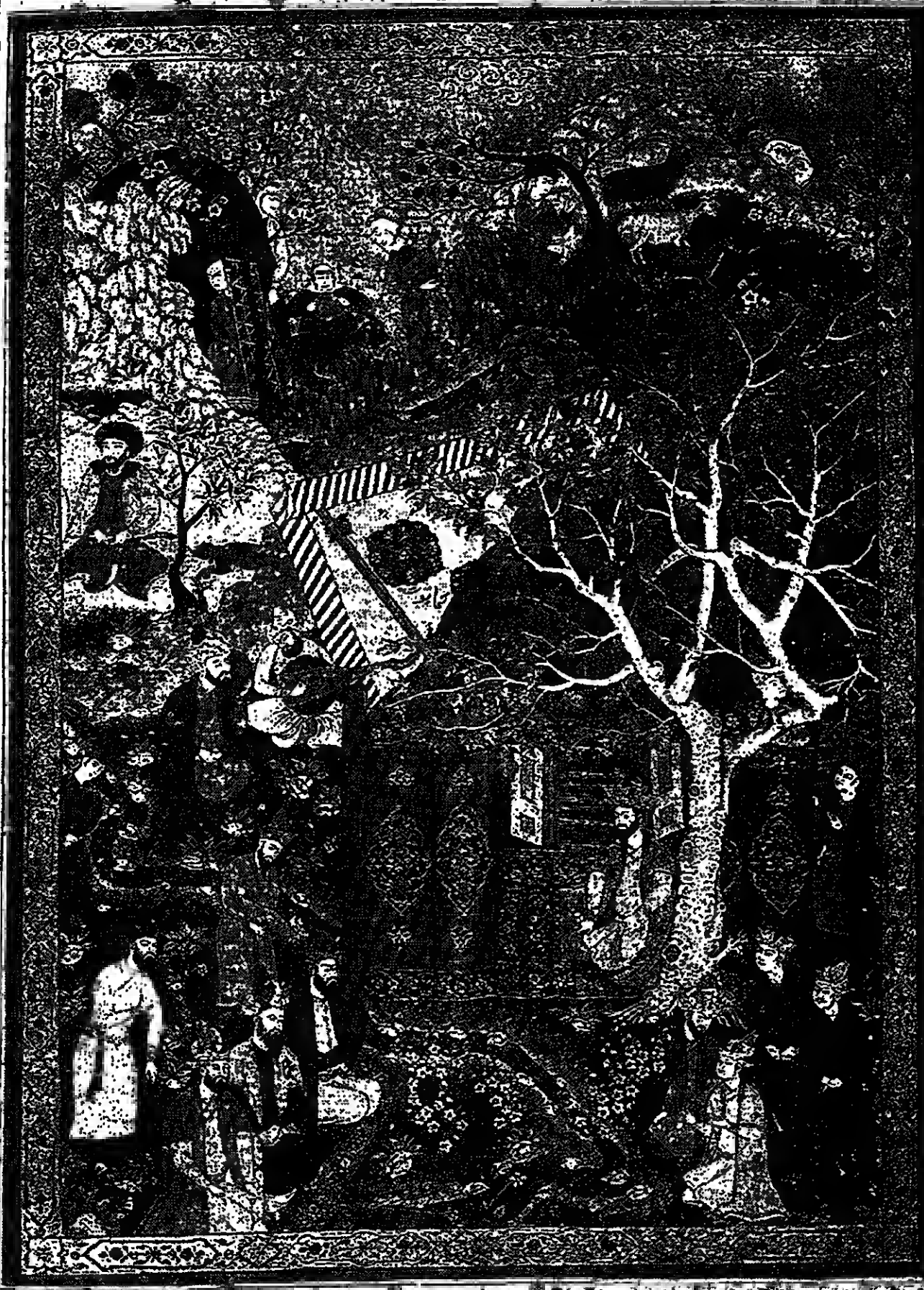
The pathways that lead from this ethnic solidarity to a strange alliance (that is not formalised in any treaty) require further exploration - and never more so than now as the present Arab-Israeli peace talks enter their most critical phase.

Unfortunately, this book adds little by way of new information or new ideas to what has been said and written on the subject already. It more or less grinds to a halt around 1987, so that the reader looking for fresh insights into the present "peace process" will be left unsatisfied.

On many key issues, Schoenbaum refrains from disclosing his own views. Was Israel a "strategic asset" to the US during the cold war, as was often claimed, or was it a millstone round America's neck? Could the US be a friend to Israel and, at the same time, an honest broker in negotiations with the Arabs?

Schoenbaum raises a lot of questions like these and throws a mass of semi-digested data at the reader from various angles but he declines, coyly, to provide intelligible answers. Indeed, his only conclusion appears to be that the American-Israeli relationship is "more special than most." This is not news.

Bernard Wasserstein



The Mughals in miniature

This brilliant illustration of the Mughal ruler Humayun giving audience in his tent comes from J. M. Rogers's attractively written *Mughal Miniatures* (British Museum Press; £9.95; 128 pages). It is one of a new series of short highly illustrated guides to Islamic art by experts in their fields: Persian painting, metalwork and, soon to appear, tiles.

The art of Mughal India in the 16th and 17th centuries is a terrific subject, and Professor Rogers's book is broader in scope than one might think, thanks

to his emphasis on the personalities of the emperors. Akbar, Jahangir, Shah Jahan and Aurangzeb. Their voracious appetite for art yielded little to Babur or Medici contemporaries. Emperor Akbar's library of 24,000 volumes is estimated to have cost three times the sum he spent on building the city of Fatehpur Sikri.

The strangeness of Mughal art, with its bizarre Düreresque Crucifixions, is explicable when we read about Akbar's and Jahangir's real love of European art. They even ordered copies of

famous Roman images of the Madonna to be displayed in public places. Small wonder that the family's taste for European art was as thirsting for baptism, whereas Akbar was set on a quite other goal, the imposition of his Universal Religion.

Whether you are planning a visit to northern India or simply interested in a fascinating chapter in the interchange of cultures, this is a book worth having.

Patricia Morison

CONSPIRACY theories never die, nor even fade away. One can only try to expose them. This book should be read because it puts to rest some of the myths that have gathered about the story of Rudolf Hess's extraordinary flight to Britain on May 10 1941.

An expanded re-issue of a book first published in 1971, this account by the Duke of Hamilton's son makes use of fresh documentary material, some from Hamilton papers but also from Foreign Office records, including M15 files, opened for public scrutiny in 1982. It is handsomely illustrated with many unusual, and previously unpublished photographs from British and German collections.

A well-researched introduction by Roy Conyers Nesbitt, a wartime navigator, and Doug-

las-Hamilton's expanded text demolish the myth that the man who flew to Scotland and was later imprisoned in Spandau was not Hess but an imposter. Nesbitt's reconstruction of the RAF's tracking record for Hess's flight calls into question the account given by John Costello in *Ten Days That Saved The West* (1991) and undermines the argument that the Duke of Hamilton knew of Hess's project and made efforts to assure his safe passage.

It was a combination of Hess's daring and skill, the RAF's technological deficiencies, and luck which helped the deputy Fuehrer evade his pursuers until a fuel shortage forced him to bale out south of Glasgow. Douglas-Hamilton disposes of the charges that the Duke knew Hess and that the flight was arranged by the Secret Service as a peace plot

Hess: the myth debunked

Opposed to the war, and passionately concerned to preserve peace between Germany and Britain, Albrecht, in a letter in July 1939 to the future

THE TRUTH ABOUT RUDOLF HESS
by James Douglas-Hamilton
Mainstream £14.99, 256 pages

Duke of Hamilton, whom he knew well, warned of the imminence of war and pleaded for a British peace plan.

By 1940, still serving Hess, Haushofer was in contact with conservative resistance circles. He provided the link between Hamilton and Hess in May 1940

when Hess, anxious to restore his position with Hitler, sought to open communications with the London government. German documentation, not used here, supports the author's contention that the Fuehrer knew about these peace efforts. They were but one of many attempts in the summer of 1940 to secure the agreement with Britain that Hitler wanted.

Albrecht, on Hess's urging, wrote to Hamilton, now in the RAF, in September 1940 suggesting a meeting in Portugal. The letter was intercepted and for reasons still unknown not acted upon until five months later. It was forwarded to Hamilton, who was asked by the Air Ministry to arrange a rendezvous for intelligence

purposes. The matter was still under discussion when Hess, frustrated by the failure of Albrecht's initiative and knowing of the forthcoming Russian invasion, took off for Hamilton's home in Scotland.

Hitler was taken by surprise. Hamilton was totally in the dark. It was not until Hess's flight that London realised that Albrecht was the *emissaire grise* in the affair, though he knew nothing of Hess's plan. False information on the BBC, subsequently corrected, directly linked Hamilton and Hess. Churchill's decision to provide no details beyond the announcement of Hess's arrival and detention opened a Pandora's box of speculation that is still not closed.

The British government mis-

handled the affair, missing a propaganda opportunity in Germany and raising alarm in Moscow. Misleading intelligence reports from Kim Philby and Colonel Moravetz, head of Czech military intelligence, convinced Stalin that Hess had been encouraged to come to Britain to conclude a peace settlement and to secure support for the attack on Russia. These suspicions, never abandoned, were reflected in a British Communist Party pamphlet calling Hamilton a friend of Hess. The British government reluctantly allowed Hamilton to sue for libel. A public retraction followed but ministers sweated out the possibility that Hess might be a witness.

Douglas-Hamilton has successfully dealt with some - though not all - of the questions still surrounding this bizarre episode. His account

leaves out some of the back-

ground information needed to understand the connection. For the most part, too, the author has only used the new Foreign Office files to amplify the story he has already told. It is unfortunate that he did not expand the later sections for, as his tantalising summary of the contents suggest, they apparently provide far more information than is given here. A brief epilogue covers Hess's trial at Nuremberg, his imprisonment and suicide in 1987.

As in the original version, the last chapter deals with the fate of Albrecht, who was arrested after the July 20 plot peace and shot on the night of April 22-23 1945 as a Russian troops closed on Berlin. One is grateful for a sensible account of the flight, but this will not be the last book on Hess.

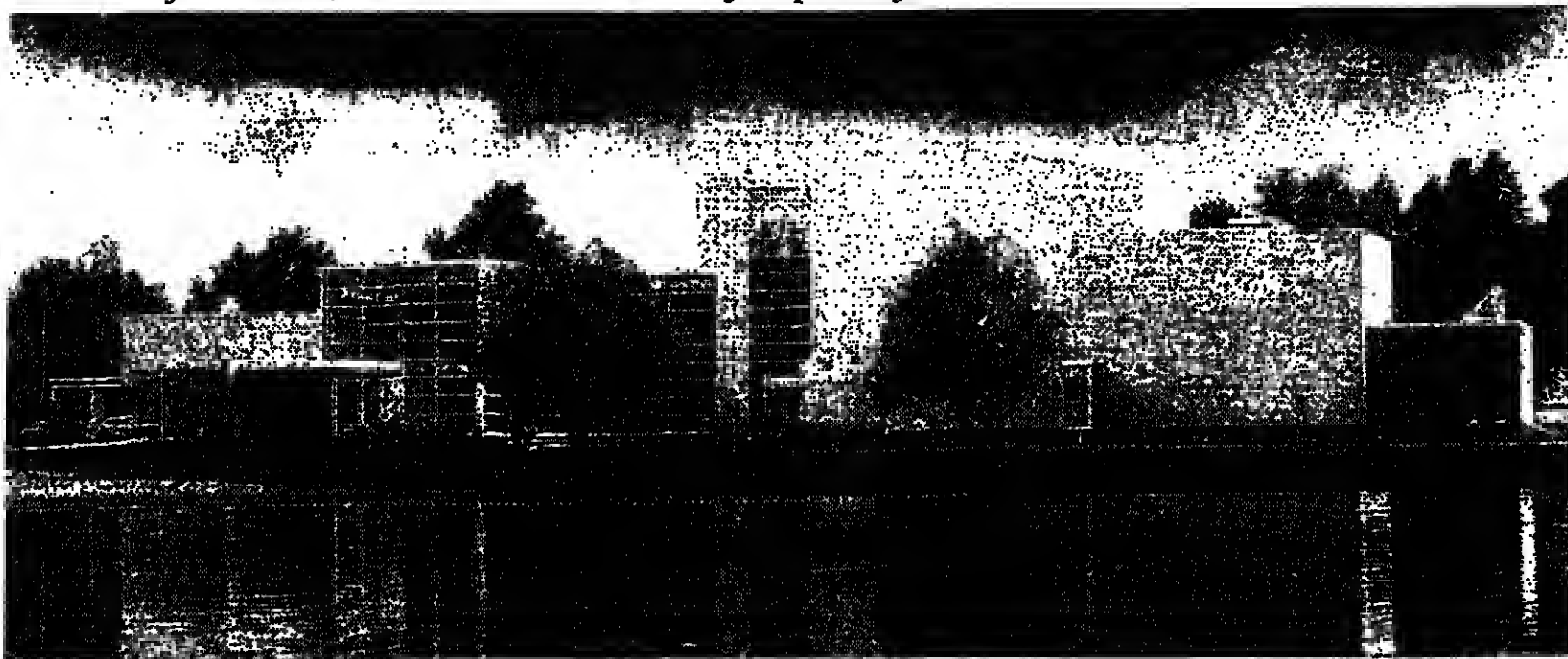
Zara Steiner

ARTS

Kuhmo Festival

Chamber music in the north

... the far north, that is. David Murray reports from a new hall in the Arctic Circle



The new Arts Centre in Kuhmo: a specifically Finnish triumph

ALMOST in the Arctic, a very small Finnish town - with many visitors from distant places - is now hearing the last of its 24th Kuhmo Chamber Music Festival. There the cellist Seppo Kinnunen founded it in 1970; his keen instinct for programming and for tempting the right artists to come has ensured that this super-abundant festival has gone from strength to strength. For lovers of chamber music, to visit the Kuhmo festival is to court instant addiction.

This year's festival, however, has been marked by a glorious transformation. Until now, concerts have always been held in the gymnasium of the local school, in Kuhmo Church and in other less gracious places. Kuhmo town is after all barely more than a glorified crossroads, amid unspoiled Northern lakes. The new municipal library was its first seriously modern building; the Arts Centre, newer still - finished just days before the current festival began - is a specifically Finnish triumph, a modest marvel of practical design.

Canny finagling by Kinnunen must have been crucial. Though every Finnish town with a population of at least 20,000 is entitled to a nationally funded music-school (yes), Kuhmo town has only 13,000-plus. Its case surely rested upon the ever-growing festival, a vision of what an Arts Centre might bring to the town and region, and a plan of intensive music-teaching for the wider Kuhmo area. A part of the centre will be the quarters of the new music-school; and if the main concert hall seats fewer than 700 people (albeit in roomy comfort), it boasts a stage large enough to accommodate a full orchestra, or any

big local show. It is beautiful. The external silhouette - music-school, auditorium with sloping roof, the backstage extension - is unshowily elegant, not grandiose. Inside, the foyer is coolly airy and lofty (clean lines, dovetailed stone and wood), with a luminous view of the Lammajärvi lake, pines and silvery willows beyond its great glass wall. The Lentua

concert hall, however, is all of blond Kainuu pine-wood - the stage, the house, the seats - and it glows, in moulded curves and walls of vertical strips. The ceiling is ornamented with what look like up-ended, dozen-legged stools (a deliberately homely touch), and with starry clusters of tiny lights hung in the pattern of the Great Bear. The acoustic is

warm, lively, intimate and lucid, flatter-strings and voices: nothing is ever so good as wood. Altogether, this must be one of the friendliest and most successful concert halls in Europe. There is a smaller Pajakkala hall too, and a dance studio. (Architect, Matti Heikkinen; acoustician Alpo Halme.)

It remains to be seen whether the town can really

make sufficient use of it, outside the two-week Music Festival. I fancy, though, that in two or three years Kuhmo will wonder how it ever managed without it. This is a slight humidity problem still: from time to time a concert would be punctuated by a dry, woody crack! - but we were assured that nothing will fall down.

That was particularly noticeable in the new Icelandic

music (expounded by native devotees), for much of it kept falling into long, mortified silences: one had always supposed that life in Iceland would be like that. The newer the music, the more "intuitive" and formally exiguous it seemed, with an air of introspective melancholy. I was most taken with the revolving patterns and folk-dance rhythms of Karolina Eliskdot-

tir's mixed-quartet *Renku*.

Among rediscoveries, the Petersen Quartet from Berlin brought a delectably witty Five Movements by Erwin Schulhoff, a Czech Jew who died in a concentration camp. A string quartet by the Swedish composer Laura Valborg Aulin (1880-1928) was gracefully appealing; but an A minor piano quintet - same instruments as Schubert's "Trout" - by the Parisian Louise Farrenc (1804-75) made a great impression. Well-crafted and finely sonorous, with a hyper-active piano part, it belongs to a very substantial oeuvre: I hope that someone may even now be copying out the parts for one of her three unpublished symphonies. Musical feminists have a composer worth championing here.

Last year the festival added an "International Forum of Young Violinists" to its menu, and the 20-year-old Armenian Nikolai Mladoyan reappeared now to display a truly sensational technique (he and Maxim Vengerov had the same teacher). This year it was the turn of young pianists. I missed a much-praised recital by 15-year-old Albert Kim, but heard two astonishing 12-year-olds.

From Kazakhstan came Dasha Babokina to play a recital including Schumann's *Faschingsschwank* and several of her own compositions with unwinking musicianship and aplomb. As for little Jonathan Gilad from Marseilles, his calm maturity in Mozart and Schubert was uncanny, and the breadth and power of his Brahms - the "Handel" Variations & Fugue, no less - scarcely credible. There must be a prodigious career in the offing.

David Murray

Proms
A hit, from Wales

IN SEPTEMBER the BBC Welsh Symphony Orchestra changes its name to the BBC National Orchestra of Wales. The ingredients of the title may be the same, but the subtle shift in emphasis underlines the orchestra's enhanced status and the fact that the BBC is not its only source of finance.

At the moment the future for several of the BBC orchestras looks uncertain. (Festivals say that the bottom line is to save the BBC Symphony Orchestra, the flagship, which could be dire news for the rest of the fleet.) But the BBC Welsh SO has manoeuvred itself into a strong position: active local support, funding from the Welsh Arts Council and SCA, a territory over which it reigns supreme, a hall of its own at St David's in Cardiff.

More important - it plays as if it has confidence in itself. The orchestra's visit to the Proms at London's Albert Hall for two concerts this week could hardly have been a better advertisement for the high standards to which it has now aspired. Although it has only been at full permanent strength of 90 musicians since 1987, there is an unanimity about the way they play that suggests a well-knit ensemble, keenly rehearsed by their Principal Conductor, Tadeusz Olska.

The performances were not self-regardingly glamorous, or virtuosic displays. What they had was discipline. This amounted to more than just being tidy, as Stravinsky's *Don Juan*, a characterful opening to Tuesday's concert, announced from the outset. Grieg's Piano Concerto, with Martin Roscoe the very able soloist, was much the same - not grand, not bombastic, but every note came across as though the work had been thought about afresh.

Olska's views on the music of William Walton were clearly going to be both fresh and worthwhile. (Has there ever been a Japanese conductor of the First Symphony before?) Any amount of detail was fastidiously put in place. Havel, rather than Stravinsky, seemed to be an inspiration for the music, so exquisite was the blending of timbres in the slow movement; but the finale did ultimately rise to an astounding conclusion.

The second concert comprised just one work: Mahler's Sixth Symphony. If there is one criticism of Olska, it is that he expresses himself in neat clauses and sentences rather than paragraphs, which robbed both the Walton and the Mahler of some of their long-term intensity. But for precision of playing, clarity of focus, the Mahler was another performance which hit the bull's eye.

It is difficult to recognise in these two programmes the orchestra as it used to perform 10 or 15 years ago. The BBC Welsh SO has started undertaking international tours (Germany and the US planned for 1994) and is well on the way to becoming an impressive cultural ambassador.

Richard Fairman

Radio/B.A. Young

A Stone's view of success

THE 50th birthday of Rolling Stone Mick Jagger might seem trivial to frivolous people but he is, rightly or wrongly, among the most famous of living men. Unexpectedly, the BBC celebrated the date on Radio 2, where song comes usually from different sources. It was a good feature they gave us, produced by Peter Aston, part biography, part sociology, not too much music.

Clearly, Jagger's success has come from his own effort, not from outside coaching (unless you include his manager, Andrew Loog Oldham). His family he rates as bourgeois; he was bright enough at school to pass into the London School of Economics ("really boring"). He had no moral convictions as a young man: "I've got my own morals." In 1967, he got three months for a drug offence, a sentence that William Rees-Mogg, then editing *The Times*, condemned.

He sang because that was what people were doing, his style is due to his love of "the theatre of it." With success, he is socially ambitious, with

aims like MCC membership. His accent has gone up or down, probably with no personal design. Mary Whitehouse says she "got on well with him." Philip Stone, compiler of the programme, says he speaks good French, is cautious with money, friendly with children, weeps easily under stress. "A knightlyhood, OK? Don't want a life peerage." I wish him another 50 years but won't be buying his records.

The World Service is doing a four-part series on *The Slavs* - sadly, not about the conflict in ex-Yugoslavia but about the historic and cultural elements of the Slav people. There are more of these than we generally think; they stretch from the Baltic to the Pacific, from the Arctic to the Mediterranean.

Last week's programme was history presenter Wanda Petrusiewicz went back to the 6th century when the Slavs were peaceful farmers, comprising one-third of the European population. In the West were Roman Catholics,

in the East, Moslems, but most adhered to old polytheistic beliefs.

Subsequent events increased the proportion of Christians, now generally divided between the Catholics and the Orthodox church. As we know, there are also Moslems in Bosnia - in Bulgaria, too - although religion, as such, is not involved in the Bosnian disasters.

Yesterday's programme dealt with religion in more detail, with a specific cheer for the visit of the Slav Pope to Poland. Next Friday's programme is more relevant to our time, recalling the Pan-Slav movements of last century and Tito's aims in that direction, and considering the Slav nations' mutual relationships today after the decline in Europe of the Russian influence: proud of being Slavs, inclined toward nationalism. The programme can be heard on the World Service at 0730, repeated at 1215 and 1930.

Radio 3 is giving more and more time to non-musical material, and this week has repeated some of last year's programmes about the US. On four days, we had Irish novelist Tim O'Grady's look at young Americans; alas, I could hear only one of them, a delightful half-hour about Nancy Lemann on Tuesday. She is a Southern writer living in New York, and she stimulated great conversation about "the old virtues" that include baseball. Also on Tuesday was a repeat of Piers Plowright's *A Bus Named Desire*, an unusual view of New Orleans of which I wrote enthusiastically when it was last broadcast, and which I enjoyed as much this time.

Alexander, Radio 4's Classic Serial, is as exciting as ever. The boy Alexander (Simon Crane) makes an unauthorised trip to Olympus, tames the resolute Bucephalus, then grows up enough (now played by Michael Maloney) to be appointed regent during Philip's absence, and to be advised by him to go after women and get himself a son. Splendid stuff.

THE 1990-93 art market year, which officially ends today, will not linger in the memory. It saw the main auction houses report a slight rise in sales, but any return to the heights of 1989-90 will be slow and tortuous.

Sotheby's has the greater cause for satisfaction. Its old competitor Christie's seemed to be driving remorselessly toward Sotheby's traditional, that is 19th century, saleroom dominance, but New York-based Sotheby's, building on the slightly renewed business confidence in the US, was able to reassert itself over its London rival.

It achieved sales of £773m (\$1.2bn), a rise of 20 per cent in sterling terms (but only 4 per cent in the more relevant dollars) as against the \$683m (\$1.06bn) turnover at Christie's (a gain of 16 per cent in sterling and 1 per cent in dollars). So the gap between the two has widened again.

This is a small consolation when set against both auction houses' sales in the rogue record year of 1989-90 when Sotheby's registered a turnover of £1.96bn and Christie's £1.46bn. At both sales are less than half those of that *ornatus mirabilis* when, for sometimes financially dubious reasons, buyers, the Japanese in particular, displayed an insatiable lust for works by Van Gogh, Renoir, and other impressionists, leading to the highest price ever paid for a picture of \$82.5m for a Van Gogh.

But the steady-as-she-goes improvement in sales this season, the first upward movement for three years, was not without incident. For Christie's things could have been oh, so much better. If the highest bid in London during the season, the £7.7m from the Zurich dealer Edgar Mannheim for an early 19th century calculator, had proved real.

For a happy week or so Christie's believed it had pulled off a coup, for the calculator had only been estimated to sell for £15,000 or so. But then the money was not forthcoming and Christie's had to decide whether it was the victim of a hoax or whether Mannheim had completely misread the mind of a prospective collector. The real victim is the vendor who went on holiday to celebrate his unexpected windfall and is now being placated by Christie's.

The most encouraging feature of the season was the return of large bidders for high-priced Impressionist and post-Impressionist pictures. The summer sales in London and New York did well. Buyers are still selective and dealers lack the cash and the confidence to acquire stock, but top-quality paintings are selling again. Sotheby's was amazed when it sold a *Ozanne* for a record \$28.6m and a *Matise* for \$14.3m in its May sale in New York. Such deals should bring out other masterpieces which owners have been reluctant to risk on the market.

London could not match that but Christie's achieved the highest price in the UK this

Off the Wall/Antony Thorncroft

Brighter picture

season when it sold a typical Renoir portrait of a pretty girl for £5.72m. The picture had sold in the feverish market of 1987 for £2.9m. Its surprise early re-sale at a much higher figure suggested that the Japanese were returning.

The second highest price of the year in the UK was paid at the Bond Street dealers, Noortman, when a continental collector gave around \$5.5m for a De Hooch scene of a courtyard in Delft. Noortman had bought the painting at Christie's in December for £4.4m, slightly below its estimate. Christie's was relieved to sell it for the child in the painting had an unattractive face. Another cleaning improved her appearance - and the work's value.

In spite of expectations Old Master paintings did not become the rival, and successor, to the Impressionists. They cannot shake off problems of condition, attribution, and obscurity. Fortunately, the Getty Museum of Malibu still has its mighty cheque book and bought the other main Old Masters on offer, a Goya bull-fighting scene for £4.95m, a Michalangelo drawing for £4.2m and a Caspar Friedrich romantic landscape for £2.3m.

In the main the finest and rarest objects sold while the mundane were passed over. By persuading vendors to reduce their reserves Sotheby's and Christie's marginally improved

their sold percentages at auction to 80 per cent of lots on offer. There were disappointments. Christie's expected to set a record price for a miniature when it offered a double portrait of Thomas Cromwell by Hans Holbein, but this was sunk by doubts about the Holbein link.

Jewels remain a firm market and top quality English furniture and silver were solid. Victorian art enjoyed a revival.

The art market is marching in line with the US and UK economies; two steps forward then one step back. Didi Brooks, chief executive of Sotheby's America says: "The trend is getting better at a fairly gentle pace." David Tyler, financial director for Christie's, sees "a slow consolidation".

As confidence returns so will better properties. Sotheby's can look forward to another multi-million pound clear out from the castles of the Princes of Thurn and Taxis. Christie's is handling the sales of the art of the late Rudolf Nureyev.

The other UK salesrooms carry on the struggle. Phillips, with its concentration on the middle market, has been hit by the reluctance of people to move house and sell the contents. Its turnover fell slightly from £85.3m to £79.6m, but Bonhams hucked the trend and raised sales 27 per cent to a record £27.9m.

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The Hanover Band - Anthony Holstead (director/harpischorde)

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Old Polish Music
PROKOFIEV
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Private View/Christian Tyler

Still watching with mother

Lady Elspeth Howe, chairman of the Broadcasting Standards Council, talks about sex and violence on television

VIOLENCE is a problem. How much it is a problem and how much a problem of exaggerated media attention our rulers find difficult to decide.

But the British public is said to be worried by violence on television. Five years ago Margaret Thatcher's government created a quango called the Broadcasting Standards Council to prove it was doing something about it - "it" being the depiction of violence not only in the sense of mutilation, injury or rape but also gladiatorial sex and swearing.

The appointment of William Rees-Mogg, former editor of *The Times* (now the Don Quixote of Maastricht), as its first chairman was greeted with the sort of derision that accompanied Lord Longford's inspection of strip clubs 20 years ago. The council was seen as the consummation of the Nanny State.

Last month the poisonous chair of its chairmanship passed to Elspeth Howe, the 61-year-old wife of the former Tory chancellor and foreign secretary whose resignation speech was the proximate cause of Mrs Thatcher's downfall.

Lady Howe may have a nannyish air. But in right-wing Conservative demonology she is portrayed as something far uglier. According to Sir Nicholas Fairbairn, the rent-a-quote MP, her haircut is the giveaway. She is, he once said, the "typical intellectual", the type who would have espoused Communism in the 1930s, the Lady Macbeth who banded the knife to her irrefutable thane of a husband, Geoffrey.

Not quite. Elspeth Howe may have enjoyed playing billiards and sitting up with the gentlemen over port and cigars at the foreign secretary's country house but she is not the self-confident, ambitious schemer her detractors suppose.

Nor is she an intellectual. She was a secretary who became a dutiful Tory wife and sat out women's committees, became a juvenile court magistrate and sat on many more committees at the age of 53 she took a degree in social administration at the London School of Economics. She is an energetic, amateur member of that club known as the Great and Good; she is not very fluent when she talks, but is sincere, approachable, feminine, occasionally even coquettish.

No, Lady Howe's real crime is that she is a feminist. She was deputy chairman of that socialist cabal known as the Equal Opportunities Commission and her reputations has followed her into the new job.

It is not, one might think, the function of a Broadcasting Standards Council to push the cause of women. Or is it? Having answered, rather imprudently, some questions about the link between television and street violence, Lady Howe went on to say that women as viewers and listeners were badly served because there were too few women in top broadcasting jobs.

Even if that were true, I asked, was it any business of the council's?

"We come back to what's shown on television," she replied. "If there is too much violence - I'm not saying every woman programme maker would say 'we've had enough of violence' - I think it is relevant that if we have more women coming up we will have much more of a balance."

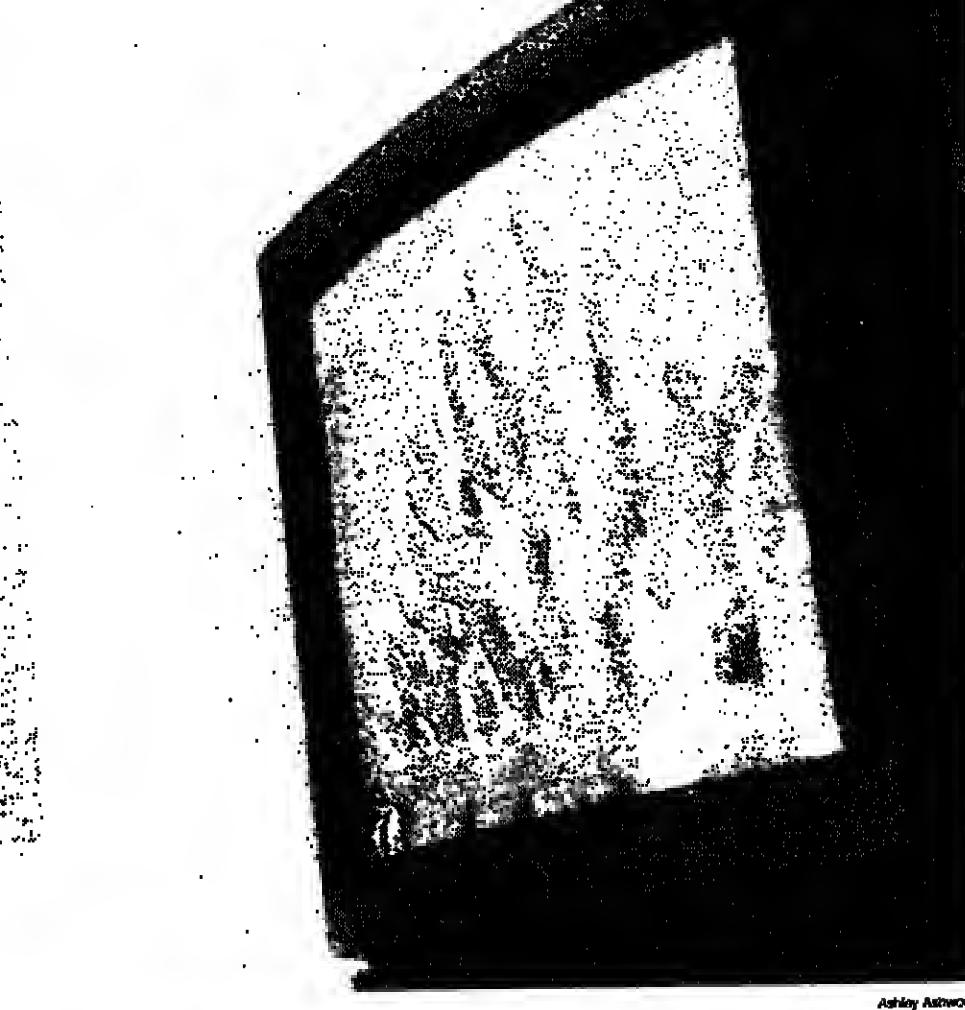
Men like to show violence and women by and large do not?

"You put that into my mouth. It isn't what I'm saying. All my life I've tried to get women and men working together on every level. The women's groups would feel comfortable if there were more of their own sex."

You think women should be promoted because they are women?

"Never! No, no, of course I don't. You know that. I don't think women should be promoted other than on their ability. I have never been in favour of what in America is called positive discrimination - but positive action, to see they get to the right places where they can be promoted. That includes giving a lot of attention to flexibility of working arrangements and to the attitudes of both men and women. I'm not saying that's going to solve all the problems of what people want to see on television."

The council is revising its code of practice which broadcasters are required by law to reflect in their own guidelines. Among the additions is a paragraph on "political correctness". The Council, it says, "respects the underlying arguments" and suggests broadcasters should avoid words which may confirm a stereotype, unless that leads



to clumsy circumlocution.

I asked Lady Howe if this would make the council a hostage to various PC lobbies.

"There are certain words we or our children may have used, like 'spastic', as a not very complimentary comment. Now it's not acceptable because those who are spastic find it deeply offensive. For broadcasters to be aware of that I would have thought is common sense, common courtesy. On any view of it, 'political correctness' changes over time."

Surely, I said, it's the job of people who make programmes to be aware of these things. Do they need you to tell them?

"Ah, well I would hope that self-regulation, self-discipline is the major part of all this. That's absolutely as it should be."

So you are a finger-wagging body?

"No, I don't think we are. We are advisory."

Mocked though it may have been, the council's code is a well-written document with which sensible people would find it hard to disagree. The trouble seems to be not so much what the council says, but what it is. Powerless to help the customer or frighten the producer, it is reduced to the status of political lightning-conductor.

The council has little left beyond requiring its findings to be published and, occasionally, broadcast. It adjudicates on complaints from the public under three headings: violence, sex and taste-and-decency. (There is a separate Broadcasting Complaints Commission to deal with matters such as invasion of privacy. The two bodies may be merged.)

The number of complaints about violence received by the council more than trebled last year, to 230. Yet this was less than the figure for complaints about sex (273) and far less than that for taste and decency (587). The figures bely the perception that violence on television is a big public preoccupation.

Statistics are not the council's only ammunition. Its members travel round the country talking to various groups, and research is commissioned on topics such as the portrayal of women, of ethnic minorities and of the mentally ill, violence on the news, or children's viewing habits.

Lady Howe claimed the council had become a credible body. "I want to stress - because I do believe it - that if it was maybe regarded with suspicion both by broadcasters and some politicians, without doubt it has established itself, certainly with a number of broadcasters, and they do take its findings seriously."

I think it is interesting that in

quite a number of cases where we have made findings the programme makers have acknowledged they have gone too far. That may be a justification for having a body outside to nudge. Her job, she said, was to persuade.

Lady Howe is careful. Her replies were qualified to the point of blandness. Perhaps it is because she is new to the job.

Do children watch too much television?

"I don't think it's a question of watching too much or too little. It's what they watch."

Do you see television as a cultural scourge?

"No, no. Quite the opposite. I am a tremendous enthusiast. The wildlife programmes... I know every one says this is boring, but if those had been around when I was young I would have been interested... I think it can have a wonderful influence, broaden minds... things people have never seen before, wonderful drama, *Yes, Minister*, documentaries..."

Were standards falling as a result of Thatcher's Broadcasting Act?

"There is a concern about competitiveness and so on. No doubt all of that is an influence. But within whatever context, it is very, very important that one regards it as a wonderful opportunity. But it can be dangerous too."

Do you enjoy watching sex on television?

"Up to a point. Yes I do, after a while, find it boring if it goes on and on and on. It depends if it is relevant."

Context, she said, was what mattered. And who will disagree with her? Lady Howe may not be the sharpest exponent of her mission but she probably expresses the sentiments of many people. She represents the values of an older generation - which is not to say they are outdated - not the easy moral certainties of the New Right.

There is, she said, a convention of parliamentary politesse. "I don't really see why on radio or television, before a certain hour, we should have bad language. Language should be appropriate to who you are with." She might have added that there are still places in Britain where it is considered gross rudeness for men to swear in the company of women.

Perhaps the majority of us feel threatened and frightened by television's relentless reflection of the ugly side of our humanity. But are broadcasters merely holding a mirror up to Nature? Or are they cynically resorting to shock tactics to win the widening war for ratings?

If the former, there is not much more that Elspeth Howe and her councillors can do but grieve. If the latter, they may bark a little - politely, of course.

A few blunt words

Michael Thompson-Noel



THE revelation that John Major is capable of candid, blunt and salty language when talking off the record to friendly journalists has surprised some people. It has even been suggested that the recording of the prime minister's conversation with Michael Brunson, *ITN's* political editor, in which Major used a variety of four-, six- and eight-letter words to communicate his lack of fondness for certain colleagues, may do him good. With luck, it is reckoned, Major's image as a leaden-tongued wimp may undergo correction.

What piffle. Major is a gonner, especially after this week's revolt of the wooden-tops in the Christchurch by-election, where a Conservative majority of 22,015 at last year's general election was converted into a 16,427 majority for the Liberal Democrats. Fifteen months too late, the voters of Christchurch rounded on the Tories with a malignant and squeaky fury.

In reality, all politicians, not just Major, are far more candid and salty when chatting in private than when speaking in public. In public, they have to be careful of what they say, so their utterances achieve a horrible muffledness. But in private they relax. Their syntax disappears. Their words become nonsensical. They swear and joke and shout. It really is a spectacle.

To show you what I mean, I spoke yesterday to John Major and John Smith. Smith, a Scot, is leader of the Labour Party, though not many people know that. In the aftermath of Christchurch, where Labour lost its deposit, I wanted to provoke the two Johns into a spot of real soul-searching.

To guarantee them privacy, I used a signal-scrambler. No one could have eavesdropped. Their

HAWKS & HANDSAWS

responses were true to form. But I have left out the swear-words because the new *Financial Times Style Guide* states that "the gratuitous use of expletives or obscenities is discouraged".

Four-letter expletives will usually be confined to infrequent use in the review [Arts] pages. I can live with that, though why the ugly-farshies should receive any dispensation is a puzzle.

First, I tackled Major. I said: "Did you read, John, what Oliver Blanchard, Rudiger Dornbusch, Stanley Fischer, Franco Modigliani, Paul A. Samuelson and Robert Solow wrote, in just one article, in the *FT* this week? They were describing Europe's lunatic monetary policies and exchange rate arrangements. They did not pull their punches. I bet you went chalk-white."

"So why not walk the plank, John? You are the most unpopular prime minister since the start of the fourth century. Why invite more punishment? Unfairly or not, you are drawing the blame for all life's unpleasantnesses, let alone the cock-ups."

"Are you sure?" the prime minister replied. "I mean... how did it come about, Michael... like Christchurch, y'know - loud of... let me put it to you - the economy, of course... I mean, wimpy guy like me. But I'm not giving in like that, like..."

On and on it went. Then I rang John Smith. I told him I had been impressed with his interview with Andrew Marr in *The Independent* on Thursday, in which he sharpened up his promise to introduce meaty political reforms (if he ever gets elected), including a referendum on proportional representation.

I said: "You are starting to raise your game, John. Many people will have agreed with your assertion that democracy in Britain is decaying, and that the Tories must be roasted for their arrogance, incompetence, complacency and sharp practices - especially their 'centralisation of power and the elimination of opposition'. But some of your critics still accuse you: John, of laziness and ineffectuality. What do you say to that?"

"Away, ye thowless jod," shouted the Labour leader. "Gie me o' wit an' sense a life, behind a kist to lie an' skint. Our Stibble-rie was Bob McGraw, a clever, stungy fellow, but then he was sea-fleg'd by his show-biz gas a kek, an' tumbld' w' a wimble. Likewise with political and constitutional reform, Michael, for by the L—d, tho' I should beg wi' yart pow, I'll laugh, an' sing, an' shake my leg, as lang's I drow!"

After that, I thought of telephoning Wing-Commander Paddy Ashdown, leader of the Liberal Democrats, to solicit his views on Christchurch. But I couldn't raise the energy.

As They Say in Europe/James Morgan

Continent applauds Major's great victory

SORRY about this, but I have to report that the last stages of the preliminary negotiations to secure British accession to a Treaty on European Union aroused so much interest on the continent that I feel the need to return to it.

Last Saturday, some seemed to miss the point. The *Neue Zürcher Zeitung's* headline ran: "Major's victory in lower house: Approval for ratifying the Maastricht Treaty." That made me feel a bit like a citizen of Stalingrad crawling from the rubble some 50 winters ago, picking up a copy of *Pravda* and reading the headline: "Red Army wins battle for city." True enough, but...

Coincidentally, inside, *a propos* nothing, was an interview with the paper's London economic correspondent from 1926 to 1971, Hans Ertl, who still lives in London. It was decked out with a picture of Spitfires of the kind that anti-Maastricht campaigners made so much use of in their campaign to maintain the full independence of those wonderful institutions that have brought Britain the enviable position it enjoys today.

The denouement of the Maastricht drama in parliament attracted more coverage of a British story than anything since the last election, more even than the equally unappetising events that have struck the House of Windsor.

But the arguments that were deployed in the course of the various debates that led to John Major's threat to call an election occasioned no interest whatsoever. The "Euro-sceptics", especially Lady Thatcher and Lord Tebbit, appeared frequently but their opinions did not. Of the papers I saw only the hum-

ble *Mannheimer Morgen* referred to the British debate over the Social Chapter, or whatever it is now called. The paper dismissed the arguments curtly: "An EC-internal market without a social charter would be a market economy without a social safety net."

The trouble is that the views of the British, particularly of those opposed to the treaty, are not handled seriously. British hostility to most aspects of the Community is viewed elsewhere in the EC as axiomatic - the Brits always say "No."

One French commentator noted that in both Britain and France there was a respectable patriotic reflex vis-a-vis Maastricht. But in the case of the British there was, "for this concrete and pragmatic people, a sort of genetic inability to imagine the abstract, the intangible, to associate with a project that originated elsewhere, one that was unprecedented, without reference to history..."

The prevalence of this attitude is damaging, for it is impossible for scepticism about many elements of the Maastricht Treaty to be taken seriously so long as that scepticism is couched in terms that reflect British attitudes.

There is a widespread view in Denmark that the "Yes" majority in the second referendum there was assured by the "Euro-sceptical" British politicians who were imported to help the "No" campaign.

So the anti-Maastricht campaign in Britain, most notably in last Saturday's *Frankfurter Allgemeine Zeitung*, was portrayed as the creature of those whose political careers had come to an end. The Tory rebels

will not worry about that because they care little for European opinion and had no interest in winning a wider public to a position of non-nationalistic scepticism about what is termed the European process.

Mainstream French anti-Maastricht campaigners, who performed so well in the face of a huge government-backed referendum campaign last year, made no such mistake. They inserted advertisements in the newspapers of other countries stating that their position on the treaty did not reflect any hostility towards their friends and neighbours. They also had the ability to make themselves understood in other languages.

But British Eurosceptics appear as rancorous repositories of an embittered nationalism.

One reason is what happens when one translates their statements into other languages. The familiar "1,000-years-of-history" rhetoric sounds mad or menacing in Spanish or German, and is therefore disqualified from serious consideration.

The other problem is the easy British assumption that the British possess a higher kind of patriotism, that the sense of nationhood of other lands is somehow diminished or of a lesser nature.

Yet all over Europe there are people who eschew a policy of nationalist rejection yet feel uncomfortable in face of the perceived implications of the treaty, especially in the light of this week's events. The British possess the most vocal group prepared to articulate their concerns: it is the manner in which those concerns are articulated that discredits the case.

James Morgan is economics correspondent of the BBC World Service.

Summer Rites/Nigel Spivey

A Midsummer Night's tempest

IT IS A commonplace of anthropology that symbolic activity, among primitive peoples, is practised as a means of realising deeply-nursed desires. There are no isobar charts in the jungle, but the savage believes that if he can perform a really convincing mime of rain falling from the skies, rain will fall.

The civilised British likewise cherish the rain. It makes their grass green and their marrows plump. But when they call up the rain god, it is a much more oblique process. Rather than dance mimetic dances, or make loud gurgling noises beneath a full moon, they seek to seduce the elements by challenging them.

So they print invitations for Pimm's and picnics and barbecues in mercurial June. They lug hampers to Glyndebourne. They commission the rollof of opera to belong to thousands in Hyde Park. And, most impudently, most efficaciously of all, they stage Shakespeare alfresco.

The bard, arguably, begged for it. To title a play *A Midsummer Night's Dream* invites every rain dancer in the land to try his luck. Not just in Regent's Park, but in little natural amphitheatres from Dover to Dunstable. Wherever leafy backdrops make scenery redundant, there Puck and Oberon will plot their elvish mischief, their mischief being: to have us all drenched before the evening is out.

But we, the audience, are made of sterner stuff. No matter that we are slatted to perch on the sort of slatted seat designed to corrugate all human posterior. We are well-prepared for drama's pastoral mode. Against the icy fangs of a

mid-July night, we have brought our tartan rugs, our woollies and our alps of whisky.

Someone will kindly light a pipe or cigar, to keep the gnats at bay. And the first downpour only steels our resolve to see it all through. What we like to call the Dunkirk spirit flows generously. Huddled under nature's inadequate awnings, we hunk each other up.

"Only a sprinkle," we say cheerfully. "Won't last long."

And some insightful person will inevitably voice the true anthropological purpose of all this: "Just what the lawn needed!"

The drama resumes. The rain has not dispersed us, but brought us into a closer, more comradely union. Those with fold-away plastic macs are a natural elite; those without improvise quite extraordinary prophylactics from Sainsbury's carrier bags. But we are



equally determined to beguile the moist night with the advertised programme of entertainment. Our money's worth will be had, if it leads to psummonas.

We may have suspected that Bottom's asinine mask was made from old cornflake packets; now we know that it is. Wall wears his costume like a sandwich board; being absorbent, and easily streaked, this Wall has been thoroughly punished by the lord of rain. The lion roars soggily, and there is unwonted laughter when the King of Athens takes a tumble on the sodden boards.

But one has to feel sorry for Titania's entourage - a dozen shivering six-year olds, drummed up from the local ballet school. Given no more than a few scraps of chiffon to cover their goose-plumped flesh, they can only survive this initiation by scampering round like frenzied sprites. It must be very character-building for them.

These fresh-air Thespians are exemplary. To strut a part in doublet and hose is demanding enough. To strut a part in soaked doublet and hose is pure heroism. As mortals and fairies unite to take the applause, mingled with thunder-claps, beneath the dripping green-wood tree, it is worth remembering the justification of these heroes.

This is not the triumph of hope over experience. It fulfills a social function: it keeps the reservoirs full.

So far as I know, Shakespeare never actually demanded of his players that they performed out of doors. But he must have had an inkling. The rain it raineth every day, he sings. And a hey, ho, hey nunny no, we bravely reply.